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OVERSIGHT OF THE MANAGEMENT OF THE U.S. SYNTHETIC FUELS CORPORATION

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
OVERSIGHT OF GOVERNMENT MANAGEMENT

OF THE

COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

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OVERSIGHT OF THE MANAGEMENT OF THE U.S. SYNTHETIC FUELS CORPORATION

WEDNESDAY, JULY 27, 1983

U.S. Senate,
Subcommittee on Oversight
of Government Management,
Committee on Governmental Affairs,
Washington, D.C.

The subcommittee met, at 9:30 a.m., in room SD-342, Dirksen Senate Office Building, Hon. William S. Cohen (chairman of the subcommittee) presiding.

Present: Senators Cohen, Rudman, Levin, and Bingaman.

Staff present: Susan M. Collins, staff director; Mary B. Gerwin, counsel; Rachel D. Harlan, assistant chief clerk; Linda J. Gustitus, minority staff director and chief counsel to the minority; Carla Kish, professional staff member; and Nancy Evans, intern.

OPENING STATEMENT OF SENATOR COHEN

Senator Cohen. The subcommittee will come to order.

The Subcommittee on Oversight of Government Management is holding 2 days of hearings this week on the management of the Synthetic Fuels Corporation.

Created in 1980, in response to widespread concern about the country's dangerous dependence on imported oil, the Synfuels Corporation fosters the development of the commercial synthetic fuels industry through the use of purchase agreements, price and loan guarantees and joint ventures. In the Energy Security Act, Congress established a national goal of achieving a synthetic fuels capability equivalent to 500,000 barrels of crude oil a day by 1987, increasing to 2 million barrels per day by 1992.

During the first phase of its existence, the Corporation is empowered to obligate up to $20 billion in financial assistance to worthy projects. Potentially, the Synthetic Fuels Corporation may place at risk $88 billion through investments in synthetic fuels production. Congress viewed the Corporation's task as so urgent and the energy crisis as so severe, that it exempted the Synthetic Fuels Corporation from many of the usual statutory restraints that govern—and limit—the authority and operations of Federal agencies, despite the fact that the Corporation is funded entirely from the Federal Treasury. The Synthetic Fuels Corporation, for example, is not subject to the Administrative Procedure Act or the Federal procurement laws, and its directors can only be removed from office for neglect of duty or malfeasance.

The Corporation was given this enormous latitude and freed from the standard ties that bind most Federal departments, so it could function more like a private entity, an investment bank.

Congress, in essence, gambled that the Board of Directors of the Corporation would be competent, bold, decisive and efficient, and could be trusted to invest billions of dollars wisely in synfuels projects that would help our Nation to be energy self-sufficient and no longer dependent on the whims of a Colonel Qaddafi or the machinations of an oil cartel.

Although the Synthetic Fuels Corporation is largely unfettered by statutory restrictions, Congress never intended that it should be immune from public scrutiny and accountability. Indeed, the debate on the Energy Security Act reflects considerable congressional concern over the unique nature of the Corporation, the lack of limitations on its powers and the extent of its accountability to Congress. A vigorous congressional oversight is all the more essential, precisely because the normal statutory safeguards and guidelines are lacking.

Our hearings today will examine how well the Corporation has met the test of congressional confidence and whether our high expectations have been fulfilled. The subcommittee's primary focus is on the operation of the Board of Directors, which governs the Corporation, and on the economy and efficiency of the Synthetic Fuels Corporation's administrative practices.

Before signing off on the second phase of the Corporation's activities, Congress must insure that the Synthetic Fuels Corporation's actions to date warrant the release of billions of tax dollars that could be available for synfuel projects in the 1980's. We must determine whether the promise of the Energy Security Act has been fulfilled and whether the public interest has, in fact, been protected.

My personal belief is that the development of a viable synthetic fuels industry should remain a top priority. While the current oil glut may have dulled our memories of the long gas lines and home heating oil shortages of the 1970's, we simply cannot ransom our Nation's future by failing to develop dependable, alternative domestic sources of energy. The Middle East is too unstable and our oil resources too limited for us to ignore the inevitable realilty of future energy shortages.

Troubling questions, however, have been raised about the management of the Synthetic Fuels Corporation, and they range from charges of extravagance to contentions that the Board of Directors is so polarized that it is paralyzed. I have no interest in any personal disputes or animosities among the Board members. Divisions of the Board concern me, only if they have impaired the ability of the Board to carry out its statutory responsibilities, and that is a legitimate concern for this subcommittee.

I have followed the Board since I voted for its creation in 1979, and during the past year I have watched its activities particularly closely and discussed its problems with a number of my Senate colleagues.

The mandate of the Oversight Subcommittee is to examine the "economy, efficiency and effectiveness of government operations." These hearings follow a number of extensive subcommittee investigations into such issues as "hurry-up spending" by Federal agencies, unnecessary sole-source contracting, inadequate procedures to protect the Government from doing business with irresponsible contractors, the management of the social security disability program, the use of computer matching to detect fraud, and the effectiveness of the Ethics in Government Act of 1978. From these hearings came many positive improvements in the management of a host of government programs and procedures. And it is my hope that these hearings will produce recommendations that will highlight any weaknesses in the Energy Security Act and will strengthen the effectiveness of the Board of Directors so that it may fulfill its responsibilities under the law.

Before calling on our witnesses, I would yield to my colleague from New Hampshire, Senator Rudman.

Senator **RUDMAN**. Thank you, Senator Cohen. I do not have an opening statement.

Senator **COHEN**. Our first witnesses today are Edward E. Noble, Chairman of the Synthetic Fuels Corporation, and Victor A. Schroeder, Vice Chairman and President of the Corporation. They are accompanied by Jimmie R. Bowden, the Corporation's Executive Vice President.

All witnesses testifying before the subcommittee, both today and Friday, will be sworn. So gentlemen, will you please stand and raise your right hand?

[Witnesses sworn.]

Senator **COHEN**. Mr. Noble, would you please begin.

TESTIMONY OF EDWARD E. NOBLE, CHAIRMAN, U.S. SYNTHETIC FUELS CORPORATION; VICTOR A. SCHROEDER, VICE CHAIRMAN AND PRESIDENT, ACCOMPANIED BY JIMMIE R. BOWDEN, EXECUTIVE VICE PRESIDENT

Mr. **NOBLE**. Thank you, Senator.

Mr. Chairman, members of the subcommittee, I am here this morning to participate in what I hope will be an informative and constructive discussion on the operations and administrative practices of the U.S. Synthetic Fuels Corporation. You have my written testimony, and I will do my best to provide further clarification on the matters it addresses or any others concerning the Corporation, as you wish.

When I took this job as the Chairman, it was because I believed in the new administration and wanted to support President Reagan in any way that he thought I could. In working during the past 2 years to direct activities at the Corporation, we have faced a number of unique problems, some associated with the anticipated difficulties inherent in any new operation, some stemming from the rapid shift in the energy supply and demand and price equation, and some growing out of the sheer complexity of initiating a whole new industry.

I know we have made some mistakes in some instances, and I will personally welcome constructive suggestions for improvement in any weak area. I also know that we have done a great deal that is right, in terms of encouraging responsible development of a synthetic fuels industry, and in terms of adhering scrupulously to the directives of the Energy Security Act. I admit the learning curve had been very steep, and while the climb may at times have seemed slow to those on the outside, I can assure you that it has always been steadily upward and with full consideration of the needs of the Nation and our responsibility to the people who pay the bills, the taxpayers of the country.

Senator, in this regard, I am proud of the fact that our total administrative expenses for the years 1981, 1982 and estimates through the end of fiscal 1983, will average only 24 percent of the budget authorized by Congress. Sir, I challenge any entity in Government to match half of that record. I'm also proud of the very real progress we have made at the Corporation.

Tomorrow the Board is expecting to finalize our first award of financial assistance. We have executed an agreement for 131(u) moneys with another project. Final award documentation work is proceeding for two more projects. We are negotiating term sheets with seven major projects, and we are considering an agreement in principle with one of them at tomorrow's meeting.

We do hope to have agreements in principle with at least some of the others by September 15, the deadline under the third solicitation.

I'll be glad to have your questions now, sir.

Senator COHEN. Thank you very much, Mr. Noble. First let me say for the record that the Corporation has been most responsive to the subcommittee's requests for information. There has been absolutely total cooperation in supplying information we requested, so I thank you for that.

Mr. Noble, because some of the questions that have surrounded the Synthetic Fuels Corporation have dealt with a lack of commitment, a perceived lack of commitment, on the part of management to the ultimate goal that Congress established for the SFC, I'd like to go back, principally, initially, at least, and talk about the Heritage Foundation. My understanding is that you are a substantial contributor to the Heritage Foundation.

Mr. NOBLE. The foundation of which I am a trustee, has been, yes, sir.

Senator COHEN. As a matter of fact, the foundation, I'm told, has just moved from a building that was known as the Noble Building. Is that correct?

Mr. NOBLE. Yes, sir.

Senator COHEN. You are associated as being almost synonymous with the Heritage Foundation.

Mr. NOBLE. That is correct, I guess, in some ways, but we don't always agree, and I respect their independence, and they, mine.

Senator COHEN. Tell me, Mr. Noble, what is the position of the Heritage Foundation with respect to the Synthetic Fuels Corporation?

Mr. NOBLE. I think they were interested in seeing it shut down immediately.

Senator COHEN. And that was their position prior to the Reagan administration taking over?

Mr. NOBLE. Yes, sir, and I believe it is still their position.

Senator COHEN. After President Reagan won the election, you came to Washington to take over as head of the transition team?

Mr. NOBLE. Yes, sir, that's correct.

Senator COHEN. Who was on that transition team for Synthetic Fuels?

Mr. NOBLE. There were a number of people on the transition team. Mr. Schroeder was on it with me. A gentleman by the name of Mr. Stievers. Milton Copulos of the Heritage Foundation was not on the team, but he was helpful. A gentleman by the name of Helmut Merklein. There was also an advisory committee made up of at least one member of our Board of Directors.

Vic, did I leave somebody off that?

Mr. SCHROEDER. I think Charles Cowan was on it and Dr. George Parks was on it. That's all I remember. I don't have a list of the names.

Senator COHEN. Was Charles Cowan on the transition team?

Mr. NOBLE. Yes, sir.

Senator COHEN. Was Kathryne Schroeder on the transition team?

Mr. SCHROEDER. Yes.

Senator COHEN. Kathryne Schroeder is your wife?

Mr. SCHROEDER. Yes, sir.

Mr. NOBLE. She was also my secretary for 26 years before she married Mr. Schroeder, so it's not exactly nepotism, sir.

Senator COHEN. No, I understand that. But, in other words, you came to Washington, you brought your secretary, Kathryne Schroeder, and Mr. Schroeder with you?

Mr. NOBLE. Let me say that I had about 2 days to put together a team and, of course, I basically put together the team of people that I knew and had confidence in, and then we didn't have the opinion of the advisory committee which drew a separate report. I consulted with a number of other people, both at Heritage, at the Center for Strategic and International Studies. I called on anyone that I knew that I felt could give me some accurate and up-to-date information, as well as what was furnished to me by the Corporation at that time.

Senator COHEN. Mr. Schroeder, what was Mr. Cowan's background in synthetic fuels?

Mr. SCHROEDER. What's Mr. Cowan's background in synthetic fuels? Possibly a year of investigation that I had him conduct regarding medium Btu gas production from coal. His background generally is in the real estate development business.

Senator COHEN. He was a construction supervisor for one of your real estate developments?

Mr. SCHROEDER. No, he was never a construction supervisor. He was a project manager for a real estate development. I had two of them in Atlanta, Ga.

Senator COHEN. That was the extent of his association with the fuel industry, the oil industry, or the synthetic fuels industry?

Mr. SCHROEDER. That's correct.

Senator COHEN. Now, you mentioned there was an advisory committee. What was the advisory committee's recommendation with respect to synthetic fuels?

Mr. NOBLE. The advisory committee recommended that we move ahead with synthetic fuels. That was the bottom line. It had a lot more in it than that.

Mr. SCHROEDER. I believe the correct name for that committee was Industry Advisory Committee, and it has many people on it from the energy industry.

Senator COHEN. The Energy Industry Advisory Committee?

Mr. NOBLE. That is correct; yes, sir. Many of those members actually had projects that were involved, but I still felt they were objective, at least as much as they could be. I gave that a lot of consideration.

Senator COHEN. Who put that advisory committee together?

Mr. NOBLE. That committee was put together—and I'm not really sure. It was kind of handed to me, sir.

Senator COHEN. In any event that committee recommended the continuation of the Synthetic Fuels Corporation?

Mr. NOBLE. That is correct.

Senator COHEN. What was your recommendation?

Mr. NOBLE. As you know, the recommendation of the committee report is a private document of the President, but I can tell you that personally, I came to the Synthetic Fuels Corporation, and I have been very open and up front about it, with the feeling that the Corporation had the potential for having a lot of mischief, for possibly being another giant bureaucracy, and I questioned the need for synthetic fuels very strongly and have admitted that and, frankly, right after, you know, when you get a job, if you look at facts different than what you had believed and can't change your mind, I feel you're either dumb or dishonest, frankly. And when I looked at the way the energy was dispersed in this country, and that was that we were producing about 10 million barrels a day, importing about 5 million barrels, a third of our needs—that's still correct today. Actually, we were importing more then, than we are today. When I looked at the actual distribution of our energy in this country and saw that conventional liquids represented only 2 percent of our reserves and 91 percent, and that includes nuclear and geothermal, were in solid fossil energies, about six times the amount of reserves in the entire Middle East, then it became apparent to me, that while we had an ample supply in the world today, and that we were still short, and we had this tremendous reserve, but without the capability of converting it to liquids, then I felt that even though maybe the timing wasn't immediate, but with the leadtimes involved, that we certainly should go ahead and develop that capability.

I've been very up front, the change in my opinions, and some of my friends are still disagreeing with me, but I think we're right.

Senator COHEN. Let me go back just to clarify that. My understanding is that at the time you represented your transition team with Mr. Schroeder——

Mr. NOBLE. As an individual, yes, sir, I did.

Senator COHEN. Let me finish.

Mr. Schroeder, Mrs. Schroeder, Mr. Cowan, and others—that was the core of the transition team. That team, headed by you, did in fact recommend that the Synthetic Fuels Corporation be discontinued?

Mr. NOBLE. Let me say this, there was a difference on the team itself. Mr. Schroeder was of the opposite opinion.

Senator COHEN. He wanted to go forward?

Mr. NOBLE. That is correct.

Senator COHEN. I assume you took a vote. Within the transition team or did you make that decision?

Mr. NOBLE. I won't say what is in the report, but I wrote the report. So I will take all the credit for the change of opinion and admit it.

Senator COHEN. So it is fair to say, then, that you wrote a report for the President, saying in your judgment, because of your background and feeling about the use of quasi-government entities to intervene in the commercial production of synthetic fuels, that you recommended against the continuation of SFC?

Mr. NOBLE. I have been very straightforward about that, yes, sir.

Senator COHEN. I understand. I just want to establish that for the record.

That was approximately in December of 1980 or January of 1981, I assume, during that transition period?

Mr. NOBLE. That is correct.

Senator COHEN. What was the date of your nomination to become Chairman of the Synthetic Fuels Corporation?

Mr. NOBLE. I believe I was nominated in April and confirmed in May. I believe that is correct.

Senator COHEN. What occurred between January 1981 and April of 1981 to change your mind? Looking at the world situation, looking at the apparent surplus that we had, knowing how fragile that was, what was it that occurred that changed your mind?

In other words, between that 2- or 3-month period, what was it specifically that caused you to change your mind about the viability or desirability of having a Synthetic Fuels Corporation?

Mr. NOBLE. Let me say this, when I took the oath to administer the Energy Security Act as the Chairman, I took it knowing exactly what the law required us to do, and I didn't have any hidden agenda to try to do something different than what the law said that we should do. But I, admittedly, did change my mind about at least developing a capability in this first phase, and then I think it would be up to the Board of Directors what they recommend as far as the so-called second phase which Congress authorized.

Senator COHEN. Didn't it strike you as being a bit unusual for the President to put in charge the very person who recommended the abolition of a corporation and name you as the head of a corporation to carry out its congressional mandate? Didn't that strike you as being a bit unusual?

Mr. NOBLE. No. I have always been very straightforward about my decisions and thoughts. In fact, when I was asked to do this, and then when I later changed my mind, I didn't talk to the President.

But I did tell people very candidly that I did feel differently, and having looked at facts that were different than what were in front of me at the time——

Senator COHEN. What was different? What were the different facts that you had available to you in April that you didn't have?

Mr. NOBLE. Excuse me, sir, I didn't change my mind about eventually wanting——

Senator COHEN. Mr. Schroeder, I would like to have Mr. Noble answer the question. I will call on you to answer questions in a moment.

Mr. NOBLE. I did not change my mind about what I thought the direction should be, but I did not, very honestly——

Senator COHEN. You didn't change your mind about the direction? The direction should be to shut it down?

Mr. NOBLE. Yes, within the responsibility of the Energy Security Act, sir, and the Energy Security Act says very specifically what they expect, and I don't take an oath falsely.

Senator COHEN. I am not suggesting that. In fact, you have been very candid all the way through. Everything that I have read in your writings and your expressions are very candid. I am not questioning that.

I am just trying to determine the timeframe, when events took place, how the President happened to name the person who recommended its abolition to chair the Corporation and whether, in fact, that had an impact upon the industry, the energy industry. I am also trying to determine what the consequences were of that in the initial stages; what the consequences were of having the management of the Corporation basically headed by individuals who were on record as being opposed to it.

That is what I am trying to deal with initially, and you have been totally candid. I don't question your candor at all or your integrity.

I am just trying to look at the root problems we have had with the Corporation and whether or not those have been corrected over a 2-year period of time.

I want to go back and try and establish that, from the beginning, when you first were nominated to take that position over, it was still your conviction at that point, in April of 1981, that the Corporation really ought to be abolished, and that the private sector ought to handle this on its own.

That is a fair statement, isn't it?

Mr. NOBLE. Let me say that I am a private sector, free market oriented person in virtually everything, and my initial reaction to almost any Government effort is that the private sector can do it better.

Senator COHEN. I understand that.

Senator RUDMAN. If the chairman would just yield for a moment?

Mr. Noble, to come back to the chairman's earlier question, which has still not been answered, he asked, if I am quoting the record correctly: Did you find it unusual that the President would nominate someone to run this Corporation that was vocal and outspoken and direct and honest in their view that the Corporation ought not to be continued?

To put it another way, I guess Senator Cohen is saying: Would it be unusual if the President nominated for Secretary of Defense somebody who was an outspoken advocate of unilateral disarmament?

That is what he is asking you, and I would like an answer to that question.

Mr. NOBLE. Well, I can only speculate, in that the President didn't talk to me personally, but I would hope that they appointed me because they thought that I would do a good job and a responsible job administering the law that was in front of me and was given to me by Congress.

I didn't have any pledge to anyone to do anything but do the job as set out by the Energy Security Act, and while I might have a free market bias and initially felt that it had no business in being, it was in being and Congress had put it in being, and so I wasn't arguing with that, sir.

Senator COHEN. Did you have a change of heart so that you thought it made sense to go forward and achieve these goals, or was it really simply a commitment on your part to carry out the letter of the law? In other words, was the spirit there?

Mr. NOBLE. Initially, it was to carry out the letter of the law because I thought if you couldn't do that you shouldn't even take the job. But I can honestly say that I think, really, when you look at the facts—and it is hard—you can't justify synthetic fuels today. For the most part, in this first generation technology, they are not going to be economical in today's prices. But the lead time is so great and our shortages real, in conventional terms. So my feeling is that for the national security of the country, for the future wellbeing of the country, that we need to have this option in place.

And when I saw those facts, it became much more easy to push it just as hard as I could, and I always intended to do the job correctly, as set out by the law.

Senator COHEN. In other words, at some point in time after you took over the management of the Corporation, you, in essence, agreed with the purpose as defined in the statute itself; namely, to reduce our dependence on the fragile sources that we have, even though plentiful, but which nonetheless were fairly fragile, and we had to move toward energy self-sufficiency sometime in the future?

Even though you might have disagreed with the timetable or the feasibility of moving as quickly as Congress had mandated, nonetheless you came to accept that this is a goal that ought to be promoted and hopefully achieved?

Mr. NOBLE. That is correct, sir.

Let me add one other thing. I felt very strongly that we had this gap, so to speak, in the reserves in our country as far as conventional liquids are concerned. We have a second phase coming up, which the Board itself will have to make a judgment to recommend whether we have a second phase; if we do have a second phase, what manner will it take, will it be a Government entity, or will it be private sector initiatives.

My own judgment is that I hope we can come up with private sector initiatives, because I do believe that the private sector is eventually the way to really get something done. But in this initial phase—and I speak only for myself, not for the Board—in this initial phase, where the initial costs are really beyond virtually all but one or two companies in the entire United States, that this assistance is necessary if we are going to get a timely synthetic fuels industry and that option available when we really do need it.

And we will need it in the future. We don't know whether it will be for liquid fuels, which is burning in a combustion engine, which is a pretty poor way to do a product like petroleum. It will make a lot of great things besides carbon dioxide and water.

So my hope is—and I know it will be needed by future generations——

Senator COHEN. Is it fair to say that your present assessment of phase 2 is that it would be undesirable or unnecessary?

Mr. NOBLE. No, sir.

Senator COHEN. Did you once characterize it as being a "monstrous" phase?

Mr. NOBLE. Yes, sir, I did.

Senator COHEN. Did you change your mind about that?

Mr. NOBLE. No. What I am saying to you is that if it is necessary for a second phase, then I would hope—and this is just one person's opinion—that we could find—that it could be limited in nature and that we could find incentives for the private sector, be they tax incentives or whatever, that could be imaginative enough to get the private sector to go ahead and develop the second and third generation technology which we will need.

Senator COHEN. Mr. Noble, the reason I am dwelling on the past history and your past philosophical objections to synfuels is because a number of articles appeared in the papers, including the Wall Street Journal back in June of 1981, expressing industry's skepticism as to whether there is any commitment.

Another item appeared in the New York Times, also expressing considerable skepticism, quoting you with respect to a gas project.

What I am trying to find out is whether this has had an initial impact upon industry, because, frankly, we haven't moved very far from the time that we created the Synthetic Fuels Corporation to today or tomorrow, when you intend to sign some contracts. You haven't produced any—very little, if any—synthetic fuels to date, and a lot of it, in my judgment, may have had to do with the initial perception that the Synthetic Fuels Corporation, because of its management, was not in fact committed to making it work.

Hopefully, you will be able to perhaps rebut that particular criticism, but I do think that was the prevailing attitude in the news media at that time, the Wall Street Journal and the New York Times, and also, I might say, it was not confined to the news media or to industry.

I would go further and point out that in December of 1982—well beyond 1981—we had the Interior Subcommittee of Appropriations issuing a rather tough report questioning the commitment and, indeed, raising questions about the conduct of the Synthetic Fuels Corporation, coming from people like Senator McClure and others.

So it is not something that is only confined to industry, and certainly it is not something confined to me or what I have read in the paper. But you had a major Appropriations Committee challenging what was going on at the Synthetic Fuels Corporation, questioning the commitment and questioning the organization. So it is not something that is isolated.

Mr. NOBLE. I think you and I, sir, both share one thing very strongly, and that is that we should be prudent and responsible and careful with the taxpayers' money, but as far as the change of attitude, I personally feel that that has not impeded in any way, and the industry people that we are dealing with I think know exactly where I am coming from.

And I have made a very strong effort to go out and talk to many of those people to let them know exactly where we are coming from.

Now at the same time. we have been, I would say, fairly tough on the sponsors, that—it appeared to me at least and some of the others—that were just in line typically because they thought they were going to get some kind of Government handout.

We don't intend to do that in any way. We are looking for sponsors that not only have commitment of management but commitment of their own equity, and in this regard—and I think it is an astoundingly large figure—at this moment we have over $3 billion, and this is in a time of poor corporate cash flows, still relatively high interest rates, low fuel prices. We have got over $3 billion committed in the private sector, ready to go in these projects.

So I think we have done a good job.

Senator COHEN. Let me explore that for a moment. You say times have been tough and are tough even now, with high interest rates. Compared to 1980-81, interest rates, as I recall, back in 1980 were 21 percent.

Mr. NOBLE. I said relatively high.

Senator COHEN. Let's go back to 1980 when President Reagan took office. We are talking about 21 percent interest rates. They are almost half of that now.

Mr. NOBLE. That is correct, and that is, I think, a real accomplishment of this administration, and I am glad that those difficulties are there. But I am saying 10 percent is still a high rate.

Senator COHEN. Inflation was running at 13½ percent at that time; it's now down to less than 3 percent, so if anything, the economic climate has improved, it hasn't degenerated.

So the question is, if it was tough in 1980—and I would note, as the Appropriations Committee did, that the Department of Energy was working on three projects that they got started in a 9-month period in very difficult times—here we are since 1980 to 1983 and you've yet—until tomorrow at least—to initiate projects from the Synthetic Fuels Corporation in an economic climate which is dramatically improved.

How do you explain that?

Mr. NOBLE. The economic climate has certainly dramatically improved, but the price of oil in 1980, we were predicting $100 a barrel and over by 1990, and today we're not even talking about anywhere near that by the year 2000.

I have to admit that the same people are making the predictions that they were in 1980 so I'm not sure how much validity, and the corporations that are investing, certainly, their cash flow positions and their cash positions have not been conducive.

Senator COHEN. They're better now than they were in 1980. You had the Reagan tax proposal, which we all voted for to cut taxes to give corporations and individuals much more money.

Mr. NOBLE. We've gone through a real recessionary period.

Senator COHEN. What I'm saying is, looking at the economy, where it was in 1980 and 1983, you've got all the factors which should lead to a much more energized private economy that would help the Synfuels Corporation.

One thing you're saying I don't understand is that prices were projected to go high. It seems to me, in a time of high oil prices, there was little incentive for the oil companies to go forward with synthetic fuels.

Since we've decontrolled the price of oil, all they had to do was sit back and the price of oil kept going up, and they kept getting richer. Isn't that true?

Mr. NOBLE. I don't agree with your analysis there totally, Senator. The oil companies were certainly doing better in 1980 than they are today in many areas. The drilling in this country for instance is off over 50 percent, about 50 percent, so the finds of new oil are lower and the individual companies I think as a whole—Jim, you may want to comment on that, you've been involved even more recently than I have, but I think that the corporation cash flows in the oil business are certainly down from where they were in 1980.

Senator COHEN. I'll ask you, Mr. Bowden, is that all the more reason that the energy companies should be eager to turn to synthetic fuels? They can be given a price guarantee or a loan guarantee.

Mr. BOWDEN. I think the discussion has sort of gone off on the wrong tangent here. What we really have to look at is real interest rates rather than nominal interest rates, and they are essentially the same now as they were 2 years ago.

Projections for prices of oil, which do set the market for synthetic fuels, are substantially lower, so the cost of financing in real terms is the same as it was 2 or 3 years ago, yet the prospects for return are substantially lower.

The cash flows of oil companies in 1980 and 1981 were almost, without exception, substantially better than they are today.

Senator COHEN. That's because oil prices were higher.

Mr. BOWDEN. It's the other way around. The reason they are substantially better is because oil prices were higher. I'm sorry I misunderstood you, sir.

The analyses of all synthetic fuels projects actually are assisted in rate of return by an inflationary economy rather than a deflationary economy. That's because a substantial portion of the costs of synthetic fuels lies in the fixed investment. The operating cost is roughly half of the total costs, or prices necessary to get a return on the capital investment.

So strange as it may seem, an inflationary economy is conducive to investment in synthetic fuels.

Senator COHEN. It was conducive to investment.

Mr. BOWDEN. Yes, sir.

Senator COHEN. Let's go back to that inflationay period where it's 13½ percent. What was the incentive at that particular point to invest in synthetic fuels?

Mr. BOWDEN. The incentive to invest in synthetic fuels arose from two counts: One was the anticipated increase in the price of oil in the future, which does tend to increase the market price for synthetic fuels, since they're competing in the same market.

Secondarily, the possibility of sinking costs early in the game through the heavy capital investment and then earning higher nominal rate of returns on that in the future both tend to increase the apparent return on a synthetic fuels project.

Senator **Cohen**. That would be in 1979 and 1980; that would be the period in which they would have been most interested, correct?

Mr. **Bowden**. That's correct, sir, 1979, 1980, the early part of 1981 before the price of oil——

Senator **Cohen**. But you really couldn't attract any interest in synthetic fuels at that particular time?

Mr. **Bowden**. No, sir. That was exactly the period you were discussing when the Department of Energy——

Senator **Cohen**. But I'm talking about the Synthetic Fuels Corporation. The DOE did in fact attract three major projects which they handed over to you.

What I'm trying to find out is what the Synthetic Fuels Corporation has done since that time.

Mr. **Bowden**. The Synthetic Fuels Corporation became active with a five-man Board late in 1981 on the down slope of this curve we're describing. The activity you're describing was on the up slope and the plateau.

Senator **Cohen**. What you're saying is that at that time you had high inflation even though you had roughly the same interest rates, high inflation and with the prospect of $100-a-barrel oil that some were predicting—I don't know how accurate that was—and you were relying upon that, but nonetheless that's when the interest in synthetic fuels developed.

Then suddenly the Synthetic Fuels Corporation comes in and the Reagan administration economic policies take hold, they cut taxes across the board, inflation is reduced, interest rates are reduced; therefore, there's no interest in synthetic fuels production; is that right?

Mr. **Bowden**. The peak of interest in synthetic fuels was 1979, 1980, and the early part of 1981. That was the time in which the Energy Security Act itself was passed, in June 1980, and that was the peak, and that was the time period that the Department of Energy in advance of our program did take off the first few projects.

In the period following 1981, starting in early 1981 and continuing through 1981 and 1982, real oil prices declined, and that's what takes the edge off synthetic fuel interest.

Senator **Cohen**. Is that why Sohio pulled out of its commitment?

Mr. **Bowden**. I wouldn't presume to guess why Sohio pulled out of a commitment. Are you talking about Exxon and Colony?

Senator **Cohen**. I'm talking about that project, why did they pull out?

Mr. **Bowden**. I'm sorry, sir, I was not——

Senator **Cohen**. You were not there then. Was it because prices were falling, oil prices?

Mr. **Bowden**. I wouldn't make a comment, sir. I really don't know.

Senator **Cohen**. I find it intriguing that your analysis is that there was tremendous interest when the inflationary policies were high, prospects of high-priced oil were even more relevant at that point, and suddenly you have this interest.

Then as inflation came down, they suddenly decided that it wasn't productive to go into synthetic fuels, Sohio pulled out.

Maybe Mr. Noble, I can come back to you, why did they pull out?

Mr. **Noble**. I think we're talking about Exxon instead of Sohio maybe, but let me before make one little pitch for the free market. We had another factor that was involved, that oil prices had been decontrolled. Initially you had some increases in prices of oil but then the free market began to work, and we found an awful lot of oil, not only in this country but around the world.

So this had a lot to do with the decreasing prices.

Senator **Cohen**. Let me stop right there because if that's the case, if we found so much more oil around the world and here because of the decontrol of prices, why do you feel we even have to have a Synthetic Fuels Corporation at all?

Mr. **Noble**. We found quite a bit of oil and a lot of gas but we still didn't—we only had 1 year, I believe 1981, since 1957, that we've actually put more reserves on the shelf than we've taken off.

So when you look at what we're using every year, which is right now approximately 15 million barrels a day and the fact that even though we found a lot here, but mostly I guess overseas we found a great deal of oil, and you have somewhat of a glut.

Also, the market reacted to that price by finding that they could utilize their energy a lot more efficiently. Again, I think the free market had a lot to do with it. That's why I don't think we should forget the free market because it eventually will do the trick.

Senator **Cohen**. I'd just like to follow up on Mr. Bowden's analysis that in an inflationary economy, that was the time to develop synthetic fuels.

It would seem to me that in a deflationary economy you have a number of things. One, you reduce construction costs; two, you have better procurement contracts; three, you have increased availability of laborers; and four, you can have more fixed price contracts, all of which seem to me to be an excellent environment in which to invest in synthetic fuels.

I don't understand how the other argument is maintained with any plausibility.

Mr. **Bowden**. I think what we're talking about, sir, is real terms, not nominal terms, and I stand by my analysis.

Senator **Cohen**. Let's move off that particular subject matter, unless—Senator Rudman, did you have any questions on it?

Assuming now that you're still committed in spite of these new finds of gas and oil—we have a plentiful supply——

Mr. **Noble**. In the world.

Senator **Cohen**. You're still committed to making the Synfuels Corporation work.

At what point in time after you came to Washington did you decide to bring Mr. Schroeder on as a Director and as President of the Corporation?

Mr. **Noble**. I had hoped to bring him on as soon as I knew that I was going to be the Chairman. Mr. Schroeder and I have worked together in the past.

Senator **Cohen**. What sort of business ventures did you have?

Mr. **Noble**. Let me tell you why I wanted Mr. Schroeder. Vic has 35 years of management experience in the development, design, financing, construction, and management of very big projects.

Senator **Cohen**. What kind of projects?

Mr. **Noble**. Construction projects. Now that's what we're basically dealing with. We've got other factors to deal with in synthetic fuels, but one of the problems of the project that you just mentioned a while ago, Mr. Schroeder, I have to give him credit, knew when that was only in its infancy, he said to me, and I recommended against that project, because we anticipated that they would have tremendously big cost overruns.

He has that kind of judgment; it was the kind of judgment, at least one part of the judgment that I felt was very necessary in this Corporation. We're dealing with projects in the billion-dollar category and there's not too many men in the United States who have actually been through all the phases of design, development, construction, financing of these type of projects.

A construction project is a construction project once you get the technical side of it in mind. So a person who has this kind of insight I thought was very important. I thought we needed a person like Jim Bowden who comes out of industry, who has had a very thorough background in synthetics.

So we have tried to round the staff out to make a well-rounded staff. I knew my own limitations, and so I go on the theory that you find the best people you can, and that may make you look good hopefully.

Senator **Cohen**. Your background is in the oil business, I assume?

Mr. **Noble**. Yes, sir, but not in synthetic fuels.

Senator **Cohen**. Nor was Mr. Schroeder's.

Mr. **Noble**. No, sir.

Senator **Cohen**. What sort of business arrangements did you have with Mr. Schroeder?

Mr. **Noble**. I'm not sure I understand the question.

Senator **Cohen**. What sort of business ventures?

Mr. **Noble**. He and I had developed a very large project in Atlanta some years ago and worked together in the contracting firm together for about 5 years. He has gone on to do much greater things and much bigger things.

Senator **Cohen**. When were those business ventures?

Mr. **Noble**. The project that I'm talking about was 1¼ million square feet of space. It wasn't exactly a little project.

Senator **Cohen**. When was the business venture terminated or consummated?

Mr. **Noble**. When was it about, Vic? The mid-sixties?

Mr. **Schroeder**. It commenced in 1956.

Senator **Cohen**. Was that the last business venture you had?

Mr. **Noble**. We've been friends and associates for many years. He and I kept up with what we were doing.

Senator **Cohen**. I mean business arrangements. That was the last one?

Mr. **Noble**. Yes, sir, except for one consulting job he did for me.

Senator **Cohen**. When was that, sir?

Mr. **Noble**. Oh gosh! 15 years ago.

Senator **Cohen**. So your financial arrangement terminated back in the early mid-sixties?

Mr. **Noble**. Exactly.

Senator **Cohen**. The reason I'm curious about that or inquiring about that is because Mr. Schroeder does in fact receive, or did receive, funds from the so-called Noble Investment or Pension. You filed that with your disclosure in 1981, I believe, Mr. Schroeder.

Mr. **Schroeder**. Mrs. Schroeder has some retirement benefits from a couple of the Noble-controlled companies as a result of her years of having worked either for Samedan Oil Company or directly for Ed or for Noble Inns. And the amounts are quite small, the residuals from that employment.

Senator **Cohen**. So the financial disclosure you filed reflected your wife's interest? That was not your interest?

Mr. **Schroeder**. That's right.

Senator **Cohen**. Mr. Schroeder, you came to Washington when? In what period of time?

Mr. **Schroeder**. I think I first came in mid-November 1980, at Ed's request, to work on the transition team.

Senator **Cohen**. How were you paid at that time?

Mr. **Schroeder**. I was supposed to be paid $1, but I never did collect it.

Senator **Cohen**. I yield to Senator Rudman.

Senator **Rudman**. Mr. Schroeder, just before Senator Cohen starts this line of questioning, I have looked at your background. I have heard Chairman Noble's testimony. My understanding is that your construction experience—and if I am incorrect, please correct me—was in the area of large commercial developments, huge shopping centers, Peachtree, in particular, in Atlanta. I think you managed that for some time in terms of the real estate and development of it; is that correct?

Mr. **Schroeder**. Senator Rudman, I haven't been directly responsible for constructing anything since 1959. I was born in a family of a general contractor. I learned the general contracting business as a young man. I earned my living in the general contracting business for a few years after World War II. In 1953, I made the decision to change the thrust of my occupation from construction to development, and I worked in the development field from 1953 until I came up here.

Because of my previous construction experience and because we took prices on the large development Mr. Noble has referred to, and I prepared costs as I thought they should be, the results were quite a bit lower if I formed a construction company and built the project. That was the reason I actually went back to constructing something in 1957, 1958, and 1959.

Since that time I have been continually in the development business. I have been a businessman, not a constructor. I certainly have that onus, if you will, of being a constructor. But my basic experience through most of my career has been development.

Senator **Rudman**. I do not understand why you would assume there is any onus to being in the construction business?

Mr. **Schroeder**. There is an onus because that is a specialty, and my much broader experience is in the business area, that of deciding what needs to be done and getting constructors to do it, getting architects to design it, calculating the costs of it, estimating the returns on it, getting the actual development accomplished, and managing to return that capital and return on capital.

Senator **Rudman**. And that would be on things like the Atlanta Apparel Mart, Peachtree Center, things of that sort?

Mr. **Schroeder**. Yes, sir.

Senator **Rudman**. Those are large mercantile shopping centers; am I correct?

Mr. **Schroeder**. They are commercial. They are not only shopping centers; they are all sorts of horizontal and vertical developments.

Senator **Rudman**. Do they involve the construction of industrial facilities?

Mr. **Schroeder**. Some, but very few. No process plant experience.

Senator **Rudman**. Refineries?

Mr. **Schroeder**. No. I said no process plants.

Senator **Rudman**. No chemical processing plants or so forth. So your business experience has been, as you describe it, for a number of years in the actual construction business because you came from a family that was in that business, then more into development, meaning all phases of development of large commercial property?

Mr. **Schroeder**. Right.

Senator **Rudman**. That certainly is management experience. I won't quarrel with that. But in terms of having experience in managing and in large process establishments such as the kind that you have to do here; you did not have that kind of specific experience before you came to the company?

Mr. **Schroeder**. You are correct. And I won't have it when I leave it—when I leave the company.

Senator **Rudman**. You will not?

Mr. **Schroeder**. No, sir. This is an investment banking thrust, not a construction development thrust, on the part of the SFC. Our primary task is to pass judgment on the work that others do and make decisions concerning assistance or nonassistance.

Senator **Rudman**. You have technical staff to advise you on the investment wisdom of the proposals that are made to you? Is that your position?

Mr. **Schroeder**. Not only the investment wisdom, but a lot of the underlying wisdom that has to do with final investment wisdom.

Senator **Rudman**. I just wanted to clarify that point so the record is clear on what your experience is and what you propose to do and what you think you are doing in the Corporation. I understand Mr. Bowden has a very substantial technical background coming out of the industry. But you do not represent yourself in any way to be an expert in the construction or the feasibility of synthetic fuel plants as such?

Mr. **Schroeder**. Right.

Senator **Rudman**. Thank you.

Senator **Cohen**. You came to Washington in November 1980. You were promised $1 a year for that period of time or whatever, and you never received that. How did you survive? How were you paid? Who paid you?

Mr. **Schroeder**. I wasn't paid. I was reimbursed for some expenses that we incurred while we were up here. The Heritage Foundation did that.

Senator **Cohen**. How much did you receive from the Heritage Foundation?

Mr. **Schroeder**. I don't know, sir. I reported it, and I can't recall—that has been given your staff. It's accurate, but I can't recite what the amount was. It was less than the out-of-pocket costs for coming up here and working on that transition.

Senator **Cohen**. Heritage paid your expenses? Did they also pay your wife's?

Mr. **Schroeder**. Yes, they did.

Senator **Cohen**. Would it be fair to say Heritage Foundation paid the expenses of all those who worked on the transition team?

Mr. **Schroeder**. I have no knowledge of anybody other than my wife and myself in that regard.

Senator **Cohen**. And that was the total income you had at that time other than your own personal holdings, solely from the Heritage Foundation to fund the expense?

Mr. **Schroeder**. That's right, sir.

Senator **Cohen**. Prior to your confirmation, and I assume Mr. Noble recommended you as a member of the Board of Directors——

Mr. **Schroeder**. Right.

Senator **Cohen**. That was held up principally due to Congress; it had nothing to do with you, but principally because the Congress didn't take any action on it. What was your salary during the time you were acting as a consultant?

Mr. **Schroeder**. I didn't act as a consultant. At first, it was intended that I come in and act as a consultant. After the SFC legal staff looked at the situation, they decided that that would be an incorrect way to handle my services up here. So there was never any consulting agreement consummated. There was one drafted. I was put on the payroll as an employee at approximately $69,000 a year.

Senator **Cohen**. An employee of the Corporation?

Mr. **Schroeder**. Yes, sir.

Senator **Cohen**. You worked how long in that capacity? Was it a year?

Mr. **Schroeder**. Approximately. I don't remember actually when my salary was submitted to the President of the United States and approved. It was about a year.

Senator **Cohen**. During that time that you were an employee of the Corporation, did you have any income from Heritage Foundation or any of the Noble companies?

Mr. **Schroeder**. Nothing other than what I reported, which was my wife's.

Senator **Cohen**. It was actually your wife's, not yours?

Mr. **Schroeder**. Right.

Mr. **Noble**. Senator, I would like to say that Mr. Schroeder, even with his increased salary, has taken a considerable cut to come with this Corporation. I would wager to say that in industry he could make at least twice as much as he is making today.

Senator **Cohen**. I have no doubts about that.

Mr. **Noble**. I just had to add that because there are a lot of folks, and Jim Bowden, we have got a number of people that we have been criticized on salaries. But frankly, they are here at considerable sacrifice from what they could do in industry.

Senator **Cohen**. I have no question about that whatsoever. I am told, as a matter of fact, I see a lot of people here that I do not recognize—I assume they work with Synthetic Fuels Corporation. I am told you have assembled quite a few very talented people. And they do, on the whole, quite a good job. So I am not questioning that.

What I am really trying to find out is what was the arrangement, how were you paid, whether or not there was any other outside income during that period that you served for $67,000. Then as I understand it, once you were confirmed, there was a recommendation that they double essentially your salary to $137,000—$135,000?

Mr. **Schroeder**. $135,000. Yes, sir.

Senator **Cohen**. At the time you were serving on the transition team, apparently you felt differently than Mr. Noble about the need for Synthetic Fuels Corporation. Is that right?

Mr. **Schroeder**. That's correct, sir.

Senator **Cohen**. Did you make that recommendation to him that you thought the Synfuels Corporation should go forward?

Mr. **Schroeder**. Sometimes way into the early mornings, yes, sir.

Senator **Cohen**. When that final time came, the chairman said he was opposed to it and recommended its abolition; right?

Mr. **Schroeder**. Senator, it's very difficult to talk about something you can't talk about. We took an oath, and we were instructed when we went on the transition team that the transition information we carried away was our personal property and the report was the personal property of the President of the United States. I have held very closely to that, and I was corrected by you a while ago for trying to draw the Chairman's attention. The reason I was trying to draw his attention was because I felt that there was a lot of concentration on one element of the report. The report was much more than one paragraph.

Senator **Cohen**. It said abolish it.

Mr. **Schroeder**. That was one element of it.

Senator **Cohen**. After you get beyond that one element, what else is there?

Mr. **Schroeder**. As I said when I started talking here, it's rather difficult to talk about something you can't talk about, and I certainly don't expect to violate one oath to serve another one.

But I will tell you this, sir, the report also contained language in it which said substantially this: that if you as President of the United States determined that the Synthetic Fuels Corporation should go ahead, then I recommend so-and-so. Those recommendations were fairly detailed.

Now, I tell you that, and I would request specifically that I not be asked any further details on this.

Senator **Cohen**. I didn't intend to get into the details. What I intended to get into was whether you yourself as a personal judgment felt that the Synthetic Fuels Corporation should continue. Apparently, Mr. Noble said that you were of a different mind than he, and he's made it clear that he is opposed to it. So I assume that you were in favor?

Mr. **Schroeder**. You're absolutely right.

Senator **Cohen**. But when it came down to making the decision, what happened was when the Chairman says no, the Chairman's vote is the one that prevails?

Mr. **Schroeder**. As you, as chairman, know, that's right.

Senator **Cohen**. So there we have a situation where the recommendation again is no synfuels.

Senator **Rudman**. It doesn't work quite that way here, Mr. Schroeder. [Laughter.]

We can outvote our chairman.

Senator **Cohen**. There is an even split today. So I am raising this once again to come back, and it's fairly painstaking, I know, and perhaps seemingly irrelevant to you, but I am trying to get at the basis of what has happened from the time that this new management took over to the time of today, tomorrow, looking at the record itself.

Frankly, when I go back and I read the Appropriations Committee report, it is fairly damning. It is fairly damning in terms of comparing the Synfuels Corporation's record with DOE during a 9-month period of time.

Mr. **Schroeder**. Sir, I would be quick to tell you that DOE filled a void that had been been worked on by industry for 10 years, and in some cases longer than that. Mr. Hartley, the chairman of Union Oil Co., tells me that he has worked on shale oil since 1959 and even before that. So this is not a matter of DOE just simply performing miracles in a very effective and efficient way. It is a matter of comparing a situation with a different situation.

Mr. **Noble**. I think the main thing is that there were basically three projects that were somewhat mature. I believe that other projects just fall way behind those in maturity as far as their being ready to do something. And two of those three, I might add, one is shut down and one is in trouble.

Senator **Cohen**. What I am basically trying to find out, here you have a Department of Energy which the President as a campaign pledge said he wanted to abolish. Here you have the Chairman of the Synthetic Fuels Corporation who thought we ought to abolish it prior to his becoming Chairman. And my personal naive judgment would be that that would have to have an impact upon industry in terms of its perception as to whether the Synthetic Fuels Corporation had any credibility or whether or not they were really committed to going forward and making this work, notwithstanding the deflationary climate which followed.

It would seem to me that had to have an impact, saying, "Are these guys serious?" I refer to the Wall Street Journal, I refer to the New York Times. I refer to the Appropriations Committee report, which in my judgment was quite critical.

And then I go further, I look at the so-called Project Indigo. That was as of April of this year. Let me go through and look at some of these quotes——

Mr. **Schroeder**. Sir, would you please look that date up again?

Senator **Cohen**. You tell me when it was then.

Mr. **Schroeder**. I was told it ended in December of last year.

Senator **COHEN**. The survey may have ended. The report was filed, I believe, in April of 1983.

Mr. **SCHROEDER**. That's what the Inspector General, as I recall, told me, that it ended in December of last year.

Senator **COHEN**. You have looked at this report, again quite critical.

Mr. **SCHROEDER**. Oh, on balance, in my opinion, it's not quite critical. On balance, it's way more suggestive of a positive set of recommendations than it is a negative set of recommendations.

Senator **COHEN**. Let me read this to you. It said,

> The net impression regarding the Synthetic Fuels Corporation decisionmaking from all the interviews was basically two-fold: The Corporation has an inordinate difficulty in making decisions; those that have been made have been very slow in coming, and as a result, many opportunities to move ahead have been lost. These remarks have always been tempered by the added statement that the respondent fully understood startup problems which the SFC has faced.

Nonetheless, that's the general impression of the interviews conducted by members of the industry.

Mr. **NOBLE**. Many of those industry representatives were people who had been turned down, too, Senator, and sometimes you don't get exactly as——

Senator **COHEN**. Communications within the Corporation do not get high marks from industry representatives. Those sponsors who have dealt with the Corporation at times have experienced numerous situations where one part of the Corporation did not know what the other was doing.

They believed that the top management had not made its policy decisions known to the staff. They also felt the Board of Directors was taking actions on matters about which it was insufficiently briefed, and nearly all the respondents felt the Corporation had not done a good job in cultivating industry.

Now that is a report that was filed in April 1983. So again, I raise the question, what is going on?

What has happened between the creation of the Synthetic Fuels Corporation and to date that would justify its continuation?

Mr. Schroeder, what can you point to, to say let's continue this Corporation?

Mr. **SCHROEDER**. Senator, we have looked at about 100 projects. We have winnowed through the 100 projects. Some of them have submitted proposals as many as three times. It is my opinion we have 21 or 22 projects now before us, several of those projects are, in my opinion, relatively mature.

I would be inclined to guess that we will be able to assist as many as a dozen of those projects in the next 12 to 15 months. This is a complicated process. It is a learning curve that Mr. Noble referred to.

It is certainly there for the Synthetic Fuels Corporation, as well as for the industry, and I believe that we are on the threshold of being able to vote on the assistance of those dozen or so projects that I referred to quite generally.

I am inhibited from talking about specific projects at this time simply because of the responsibility of it.

Senator **COHEN**. Mr. Noble, on January 28, 1982, there was an annual report for 1981 filed, and it indicates that although progress has been good the Corporation's first awards are expected this summer. That would have been the summer of 1982.

Here we are now, today, a year later, saying we expect the first award to be made tomorrow. So we are a year late.

Mr. **Schroeder**. You might say we are a year late. Our judgment was not as good at that time as it should have been, or could have been.

Senator **Cohen**. But to date, there has not been one dollar obligated, has there, on new projects?

Mr. **Schroeder**. You are right. A 131(u) commitment was signed. So one might say that is an obligation, but none of the money has been drawn down.

Mr. **Noble**. We will have one project that we will probably approve tomorrow, and it is a good project. I think if you saw where we started negotiating that project—and I don't want to make that a public statement, but I will be happy to tell you privately—the taxpayers have been well served with a good project, and it has been well negotiated and toughly negotiated on behalf of the taxpayers.

It took time. We could have signed it a year ago if we had wanted to sign it with the original asking price.

Senator **Cohen**. Mr. Noble, let me come back to the philosophical aspects.

Mr. **Noble**. We have had a lot of problems. Putting an organization together that has never worked together, with the many talents that you need, has been difficult, and we have made some mistakes, and we have admitted that.

Senator **Cohen**. I don't question that. I really don't question that.

I think, first, we have got to go through and find out whether there was in fact a commitment, and, frankly, I think conflicting signals have been sent by this administration. I don't think there is any doubt about that.

I don't blame you for that. I know, for example, what OMB's position is. They are not terribly fond of the Synthetic Fuels Corporation. So that is one signal that goes out to the private sector.

That makes, it seems to me, your job that much tougher because you have got to persuade those industry officials out there that not only, one, are you serious; two, are you credible; but three, that those signals coming out of the administration are not some sort of hidden signals that there is really another agenda on the horizon here.

So it means you have to have all that much more dedication, that much more organizational talent, that much more unanimity of thought within the Board, which is another matter, in order to be successful.

So that has contributed to your problem. I don't lay it at your doorstep. There are a lot of factors involved which have contributed to a situation in which there has been very little positive action over a 3-year period.

So I am not trying to cast aspersions on anybody at this point.

But question No. 1, philosophy.

No. 2, is this administration committed to it? If so, how committed?

No. 3, is there a split within the Board, and to what degree does that contribute to the kind of problems that you have got?

Basically, let me come back to the philosophical situation. It is clear to me that the industry does not like doing business with a Government entity. Would you say that is a fair statement—there is a general reluctance on the part of those in the business in turning to the Government in what they otherwise feel is a private enterprise area?

Mr. NOBLE. I think there is some of that, sir. I believe that in what we call our outreach initiative that we have ameliorated quite a bit of that.

Mr. Bowden, Vic, and I, even some of our Directors, have made a very direct attempt to get out and talk to industry, to tell them where we are coming from, what we are trying to do, and I think it has been effective. But it has taken time, and I wish we could have just started running when we hit the ground. But it has been difficult.

But I think when you take all factors into consideration, personally, I think we have come a long way and done a very responsible job, and I think hindsight will show that, too.

Senator COHEN. It seems to me you have got two or three options to pursue with Synthetic Fuels Corporation. You could, I suppose, decide that it really isn't worth the taxpayers' money. We haven't gotten that much out of the commitment; therefore, we ought to ship it all back to DOE, let them do some R&D and a little basic research over there. That is one option.

Second, we could have private industry do it. But they don't seem to be particularly interested in this particular point, or, if Mr. Bowden is correct, they don't have the sufficient cash flow now because oil prices have dropped, even in a deflationary economy.

Or, third, I suppose you could go ultimately to the Government and GoCo, which is authorized in the statute as well.

If you had to make a recommendation, what would yours be? Given the record to date, would you rather leave it up to private industry to develop synthetic fuels, or does the Synfuels Corporation still have a viable role?

Mr. NOBLE. I think the way we are going is responsible, it is deliberate, and it is getting results.

Senator COHEN. How many equivalent barrels of oil have been produced to date?

Mr. NOBLE. In synthetics? Zero. But the lead time on these plants, when you start, is anywhere from 5 to 10 years. That is why you can't just turn on the switch and things start running.

Senator COHEN. What do you project from this point on as to how many barrels of oil or equivalent that you will be able to produce with the Synthetic Fuels Corporation?

Mr. NOBLE. Jim, what is it?

Mr. BOWDEN. Senator, the total amount expected to be produced by those narrowly described projects, those which have received the funding, no expansion, would be about 150,000 barrels a day.

Senator COHEN. By when?

Mr. BOWDEN. By about 6 years from now, in that general range. It depends on the private industry's own construction schedules, when they are prepared to put up their part of the money, as well as the state of the development of the projects today. It varies.

Senator COHEN. So by 1989 you expect 150,000 barrels of oil equivalent a day?

Mr. BOWDEN. That is correct, sir.

Most of the projects which have not begun construction now have tentative onstream dates around 1989, some earlier.

Senator COHEN. That is all phase 1 effort?

Mr. BOWDEN. Yes, sir.

Senator COHEN. Which projects can you point to that would yield that kind of energy flow?

Mr. BOWDEN. It is not a single project, sir. That is the sum of the projects.

Senator COHEN. I understand that. Which projects could you point to that can produce that kind of energy equivalent?

Mr. BOWDEN. Sir, I really don't care to talk about the individual projects. These are still under negotiation.

Senator COHEN. These are all projects that you are currently dealing with that you feel will produce 150,000 barrels a day?

Mr. BOWDEN. They are projects before us, projects we expect to be submitted to us, solicitations which we have prepared.

Senator COHEN. I would be happy to have you furnish that for the record in terms of which companies you expect to do that with.[1]

Let me come back to you, Mr. Noble, about a philosophical question once again.

Would you personally invest money in a corporation like this if it were a public corporation—I am talking about synthetic fuels—given the record to date? Do you think we ought to go forward? Would you have enough confidence in it to say this is something we ought to invest in?

Mr. NOBLE. Senator, I wouldn't invest in a battleship, and I wouldn't invest in a tank, but when we are talking about the future security of the country and the benefits that the country can get, then I think a limited investment so that we can have the capability of tapping these massive resources that we do have in solid fossil energy that we don't have the capability to utilize, I think it is worth it to the country, not in a massive way at this moment.

But I think the Sasol experience, which some of us had the chance to go over and look at last summer, was an interesting thing. You read the facts and statistics, but when you realize that they started in 1955 with their first Sasol 1 plant, when they finished that plant it was 3 years, working 7 days a week, 24 hours a day, before they got any production out of it, period.

It wasn't that the technology didn't work, and this is a thing you have to understand about technology. Technology will work at a bench scale, but when you scale it up from, say, 5 to 50 barrels to 10,000 barrels, often some parts of it don't work, and we have got to figure out why it doesn't work.

Anyway, once they got that plant producing, then—when was it, Jim, in the 1970's, 1976 or 1977—they started Sasol 2, they had enough experience that halfway through it they decided they wanted the Sasol 3 plant. The Sasol 2 plant, we were told a month or so ago when their chairman was over here, that it took them about nine months versus 3 years to get it onstream. Sasol 3, they just almost had to push the buttons and it started.

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[1] See p. 397.

So there is this learning curve that is essential and is going to be productive and economic, I think, for the long-term future of the country.

But as a personal investment—and this is the problem—when the bottom line results are 7 or 8 years out, it is hard for a board of directors of a private company in these initial first generation technologies to invest in them. I think that is the difficulty that we have.

So it is not just a matter of saying what I would invest in. If you left it totally to the private sector, eventually you would develop synthetics without a Synthetic Fuel Corporation, but it is a question of timing.

Do we want to have this capability available when we may need it in a massive way? Do we want to get the environmental technology proven now with a few plants, not wait until we need 40 plants at one time and spend a tremendous amount of money?

That is, I think, the big question.

Senator COHEN. What you are telling me, then, is the curse of the private enterprise system is the bottom line profits each year?

Mr. NOBLE. Unfortunately, I wish our executives in major companies were compensated 5 and 10 years after they left and went into retirement.

Senator COHEN. That is the problem, is it not, that you have got to deal with the private industry? They have got to look at their quarterly profits?

Mr. NOBLE. Exactly.

Senator COHEN. And that bottom line says this is not a good time to invest?

Mr. NOBLE. Exactly, and they can't invest in tanks or battleships.

Senator COHEN. What I am getting is that if you leave it up to private industry they are not going to do it, not in the near future. It takes a long time to do the R&D, as your experience with the Sasol 1, 2, and 3 development. To get the leadtime, get the learning curve, to get all of this online, that is years away, years away and private industry is not going to do it.

Fair statement?

Mr. NOBLE. But I would say this, that the government sector, if you left it just to government, to typical bureaucracies, you would have an awful experience. I think an assist in things of this nature is a good partnership.

Senator COHEN. What happened in South Africa? Is that government-owned or privately owned?

Mr. NOBLE. It was initially government-owned, and now I think it is 50 percent privately owned.

Senator COHEN. So they apparently felt that the government had to take the initiative because the private sector wasn't going to do it?

Mr. NOBLE. Yes; but they also realized that they need the private sector to make it more competitive and that sort of thing.

So I think they have got a pretty good combination.

Senator Cohen. So let's come back to the United States then. What do you foresee—and you are the Chairman of the Board, you are the man who has got to have the vision as to where we are going with this Corporation—what is your vision?

Mr. Noble. I think that once we have this initial technology in place and this capability and infrastructure of people in place, that the private sector will be able to respond to it in a much more effective and quicker way than they would have had we not had this entity, at least for whatever period of time you as Congress judge that it should be in being.

Senator Cohen. Do we have to have an inflationary economy for them to have an interest in this?

Mr. Noble. No, sir, I don't think so.

Senator Cohen. That seems to be the record, from what Mr. Bowden said before.

Mr. Noble. I think there is a factor there that Jim was talking about, too; the finding cost of oil is going up substantially. When you build one of these plants, once you get the initial capital investment written off—in most of the plants—Jim, you correct me, or Vic, if you will—that we are negotiating—I think the ones we negotiated for so far—the first 30 million barrels. But we anticipate they will produce 20 or 30 years after their basic investment has been paid off. So they will be very competitive with the private, I mean conventional sector of the petroleum industry.

Mr. Bowden. That's generally the way we structure our deals. So that the major investment is pretty well repaid by the time the Federal support stops. So as I mentioned earlier, and I think you may have left out something, Senator, I said the expectation of the increased price of oil, the market, is what drives these. The expectation is that because only roughly half of the costs are continuing operating costs, the other half being associated with the sunk investment, but once that half is discharged, there will be no doubt that production will continue to operate, because the market is expected to provide substantially more return than the cash operating costs, once the investment itself has been served.

Senator Cohen. What happens if there is a cut-off of Persian Gulf oil.

Mr. Bowden. You mean to the type of structure we're running? When the price of oil goes up, we provide for profit sharing with the Government or revenue sharing with the Government.

Senator Cohen. If the price of oil goes up, does that give more incentive for private industry to look to synfuels or less?

Mr. Bowden. More, clearly, sir.

Senator Cohen. More. Now that the price is going up?

Mr. Bowden. If It goes up substantially, yes, sir, that's correct. There is no question about that.

Senator Cohen. I'll come back, if we have time, to pursue some more of that, but I'll move on to questions concerning the polarization of the Board.

I have a copy of the so-called Coughlan report. Mr. Coughlan is in the audience today and is due to testify later. But essentially, tell me about the Coughlan report, Mr. Schroeder. My understanding is that you've got some fairly strong-minded members on the Board.

Mr. **Schroeder**. Did you say "very"?

Senator **Cohen**. Fairly strong minded. You would put yourself in that category, wouldn't you?

Mr. **Schroeder**. Yes, sir.

Senator **Cohen**. In any event, you've got yourself, Mr. Noble, and I believe Victor Thompson, who is not here today. What is his relationship, Mr. Noble, to you? Is he a personal acquaintance?

Mr. **Noble**. I've known Vic, yes, for about 15 years, I guess. He's chairman of the board of a bank in Oklahoma. I've known him. I've done business with him. I know the caliber man he is, and the kind of thinker he is, and we're basically an investment bank. And I think we're very privileged to have both Vic Thompson and Jack Carter, who is an investment banker, on this Board, and represent, in effect, what we are, is a giant investment bank or venture capital Corporation.

Senator **Cohen**. I agree with that. So you've got yourself, Mr. Schroeder, Mr. Thompson, and you've got Mr. Wilkins.

Mr. **Noble**. Mr. Carter, Mr. Robert Monks, Mr. Mike Masson. And I guess that's the seven.

Senator **Cohen**. You had some disagreements among the Board members as to policy, performance, as to the way in which business should be conducted, as to the questions about whether they have been properly communicated with and kept apprised of events in a timely fashion. Apparently, this friction led to your requesting, Mr. Schroeder, a report from Mr. Coughlan; is that correct?

Mr. **Schroeder**. That's correct.

Senator **Cohen**. Why did you ask him to undertake to conduct his report?

Mr. **Schroeder**. You've already stated why.

Senator **Cohen**. You agree with everything I said?

Mr. **Schroeder**. Yes, sir.

Senator **Cohen**. When was that report requested? In December 1980?

Mr. **Schroeder**. I think it was December 1982 but I'm not laying my finger right on the date there.

Senator **Cohen**. My understanding is that he submitted a report to you, entitled "Improvement of Corporate Communications," on January 6, 1983. And that report states that the concerns the Directors expressed to him, and I'm quoting:

> Reflect a serious communications void at the Board level, particularly between outside and inside director, i.e., the Chairman and the President.

To correct this problem, Mr. Coughlan recommended that a special informal 2-day meeting of the Board of Directors be convened as soon as possible, preferably prior to the formal January board meeting, to discuss the management and communications concerns raised in that report.

What action did you take with respect to that recommendation?

Mr. **Schroeder**. I read the report and immediately put the Secretariat into effect and commenced putting some people to work on an implementation process that might be utilized to carry out some other recommendations in the report.

Senator **Cohen**. What did you do about the 2-day get-together that he recommended to try and sort out the differences among the Board members?

Mr. **Schroeder**. That was a question that has come up several times. I did nothing about it. I was opposed to it and had so stated to all the Directors. It's illegal.

Senator **Cohen**. That's your judgment. That an informal get-together in which no business is discussed, in terms of contracts is illegal?

Mr. **Schroeder**. It's not my judgment. It was the recommendation of our General Counsel that that was prohibited by the Energy Security Act. To have all the Directors and all the officers together in any kind of an affair that addressed any kind of communications effort would have constituted a meeting.

Senator **Cohen**. Your General Counsel, is he here today?

Mr. **Schroeder**. Our new General Counsel is here today.

Senator **Cohen**. Who is the General Counsel that gave you that ruling?

Mr. **Schroeder**. Ed Cox was the General Counsel at that time.

Senator **Cohen**. Where is he now?

Mr. **Schroeder**. He's resigned from the Corporation and gone into private practice in New York.

Senator **Cohen**. It was his judgment that any get-together on an informal basis among the members not to discuss contracts, not to discuss solicitations, but rather to discuss ways in which the Board could communicate better, was a violation of the statute?

Mr. **Schroeder**. I'm afraid you've put a lot of specifications in that, but I am not certain we're in the question that was posed to him, but the practice that we have held to rather religiously, is not to have four of us together in a closed meeting without having voted on it as a closed meeting, and that is what I am referring to.

Senator **Cohen**. In your judgment, the statute precludes a social get-together, with all members present at one time?

Mr. **Schroeder**. We're not talking about social, in my opinion. You don't really resolve communications problems at the Synthetic Fuels Corporation at a social gathering, in my opinion, Senator, but I'm not passing specific opinion on the legality of it, and I thought I made that clear.

Senator **Cohen**. No, you were passing a specific opinion. You were saying that, in your judgment, based upon advice of counsel, it was illegal.

Mr. **Schroeder**. You're right. On advice of counsel, yes, sir.

Senator **Cohen**. That's not your judgment, though. That's just counsel's judgment.

Mr. **Schroeder**. I agree with the judgment, when I read the act.

Senator **Cohen**. It is your personal judgment, then?

Mr. **Schroeder**. Sir, I'm not an individual that depends on his personal judgment over the judgment of a discipline that we have in the Corporation to help with the team effort. In this case, this was the General Counsel's judgment. I do agree with it.

Senator **Cohen**. Another of Mr. Coughlan's major recommendations was that a communications task force be established for 90 days to address "communications improvements that are urgently needed." Did you recommend to the Board of Directors that such a task force be created?

Mr. SCHROEDER. No, I don't believe I did. I made a recommendation to the Board of Directors as to what was to be done, what I had done, and what I thought should be done. As with any other consulting agreement, I have never hired a consultant to manage something for me nor have I ever hired a consultant with the idea in mind that I would use everything that he recommended. I'd pass my judgment on it. I'd pass the judgment on it of the Board of Directors. I'd put some of it into effect, and some if I didn't put into effect. This was all passed on to all the Directors.

Senator COHEN. Wasn't it the Board of Directors who, in December, because of the criticism that came out of the congressional report, indicated that something had to be done, and you responded to that, saying you'd hire Mr. Coughlan to do an analysis of the nature of the problems confronting the Corporation and to make a report? Wasn't it also requested by the Board of Directors to take up that report at the January meeting, I believe, in Houston?

Mr. SCHROEDER. I'm not privy to some of the conditions that you state there. I don't know that the Board of Directors had this concern.

Senator COHEN. Weren't things pretty bad?

Mr. SCHROEDER. Things weren't as good as I would have liked them to have been. But let me, if I may, interject this: Senator McClure also put out some more language after he put out the language that you characterized as negative, and I took as negative. And, in that language he was supportive. He has told me that he is supportive of the progress that we have made. Now he doesn't believe that we have gone fast enough, and I don't represent that he believes we've gone fast enough. I do believe he understands why we've gone at the pace we have, however. So I would beg you to take both sides of this issue, if you will, and give credit, if you will, please, to the work that has been done—it's not all negative—from the Senator's subcommittee.

Senator COHEN. That's correct. It's not all negative, but I'm trying to put it in perspective, in terms of time. As of December of last year, there was considerable conflict among the Board members, to the point where you felt it necessary to hire Mr. Coughlan to see if he couldn't do a report analyzing the nature of the friction?

Mr. SCHROEDER. You're absolutely right.

Senator COHEN. The impediments to carrying out your congressional statutory mandate in an efficient and effective way?

Mr. SCHROEDER. I agree. Yes, sir.

Senator COHEN. That report was done, and two of the major recommendations in that report were ignored. No. 1——

Mr. SCHROEDER. No, nothing was ignored.

Senator COHEN. You did not take it up with the Board, apparently.

Mr. SCHROEDER. Oh, I did take up all the aspects of it with the Board. I sent the whole report to the Board. I asked the Board for comments. I sent a report to the Board. I told the Board what I was doing. So there's no representation that's correct saying it was ignored.

Senator **Cohen**. At the Houston meeting in January, did you discuss the Coughlan report at all?

Mr. **Schroeder**. No, we did not.

Senator **Cohen**. Did some members indicate to you that they wanted to discuss the Coughlan report?

Mr. **Schroeder**. Yes, they did.

Senator **Cohen**. And you simply said no.

Mr. **Schroeder**. I didn't tie anybody's hands or stop anybody.

Senator **Cohen**. Excuse me, Mr. Nobel. I want Mr. Schroeder to finish.

Mr. **Schroeder**. No. I didn't tie anybody's hands or ask anybody to finish. It did come, to my memory, by one Board member twice. The debate was rather hot and heavy in the closed session at that time. It was a subject that I felt took some cool thinking on, and I did not want to bring it up at that time. So I said I didn't want to bring it up.

Now there were six other people there. The Inspector General and the officers. So every opportunity was there to bring it up. I made my position very clear. I'm just one of seven of that Board.

Senator **Cohen**. But you're President of the Corporation, and if you say you're not going to take it up, apparently, it's not going to be taken up.

Mr. **Schroeder**. As Senator Rudman said a while ago, the Chairman controls some things and the President controls some things. I didn't control the conversation nor the agenda in that closed meeting.

Senator **Cohen**. In any event, following the January meeting, is it fair to say that things have not improved among the Board members?

Mr. **Schroeder**. No, I don't think it's fair at all. As a matter of fact, one of the Board members made a statement at the last Board meeting concerning how much improvement he had seen.

Senator **Cohen**. At the last Board meeting that you had in Tulsa?

Mr. **Schroeder**. No, the last Board meeting was here in Washington.

Senator **Cohen**. At the Board meeting in Tulsa—what was the date on that?

Mr. **Schroeder**. May 26.

Senator **Cohen**. Were there three members of the Board who abstained from even voting on any matters?

Mr. **Schroeder**. No, that's not correct.

Senator **Cohen**. Why don't you correct me?

Mr. **Schroeder**. There were three members of the Board who abstained on voting on two items.

Senator **Cohen**. For what reason did they abstain?

Mr. **Schroeder**. I didn't ask them; they didn't tell me.

Senator **Cohen**. So you say that relations among the Board members have improved since January?

Mr. **Schroeder**. Yes, sir.

Senator **Cohen**. I'm going to yield at this point to Senator Rudman. I'm occupying too much time, but I intend to come back to this particular area about Board communication and relationships, because I believe it has reached a point in which it's seriously affecting the performance of the Corporation. Senator Rudman.

Senator **Rudman**. Thank you, Mr. Chairman.

Mr. Schroeder, I would like to go from some general questions of Senator Cohen to some rather specific questions on specific instances to fill out this record.

It is my understanding from your answer to Senator Cohen that former Counsel Cox advised you that it would be inappropriate for you to meet with the entire Board informally; is that correct?

Mr. **Schroeder**. Senator, may I ask Mr. Lipkin to come up and answer that?

Senator **Rudman**. Before you ask him your recollection of Mr. Cox's advice to you, was he there at the time? The gentleman you'd like to ask the question of?

Mr. **Schroeder**. I've said—the answer to your question, as I understand it is, yes.

Senator **Rudman**. That's what Mr. Cox advised you. Did Mr. Cox give you any advice as to whether or not it would also be inappropriate or illegal in regard to the statutes or the rules of the Board to meet privately with a group of less than all seven members of the Board?

Mr. **Schroeder**. Yes, sir.

Senator **Rudman**. What did he say about that?

Mr. **Schroeder**. It's been longstanding advice from the Counsel's office that any three of us could meet separately, coming together, not having a quorum.

Senator **Rudman**. So if three or four of you went to lunch together to talk about the Corporation's business you'd be in violation of Mr. Cox's advice?

Mr. **Schroeder**. Four of us, yes, sir, if we tried to come to conclusions concerning the SFC.

Senator **Rudman**. What you're telling me then is that you never talk about Board business except at formal Board meetings with more than three members of the Corporation present; is that what you're saying?

Mr. **Schroeder**. No, I wouldn't say that, sir.

Senator **Rudman**. Then would you please explain your answer because your answer is now in conflict; either you do or you don't.

Do you discuss Board business with four people together at one time—and I'm not saying Mr. Cox's advice is right or wrong, I haven't looked into it, I'm just asking you a simple question.

Mr. Noble, I'd be happy to get your response, but first I want to hear Mr. Schroeder's.

Mr. **Schroeder**. Senator, we try religiously to not come to any conclusions, not try to influence other Board members concerning SFC business if we have four or more Board members together at the same time except in an open or closed meeting.

Senator **Rudman**. So what you're now saying—and I understand your answer which is perfectly fine—is that you might have five or six people together, you might talk generally about things but you wouldn't try to influence anybody.

Mr. **Schroeder**. That's right; yes, sir.

Senator **Rudman**. Could you have all seven together and talk about trying to influence better human relations without being in violation of Mr. Cox's order?

Mr. **Schroeder**. I have a rather structured manner of going about accomplishing any Synthetic Fuels Corporation policies, and I put out that recommendation.

I'm not certain exactly what you're asking me, but in my opinion we have had that kind of a conversation by sending Mr. Coughlan around to talk to everybody.

I had talked to the members of the Board concerning the report, all of them have read it, I think, and I put out a recommendation as to what should be done. I also did some things, so we have had that kind of a conversation, I think.

Senator **Rudman**. But going by your own rules, obviously, you and Mr. Noble or you and Mr. Carter or anyone else, one or two people, or two or three people, could certainly talk about Board business and discuss things you might want to do at a Board meeting, and that wasn't in violation of any law.

Mr. **Schroeder**. Yes.

Senator **Rudman**. From that I want to go to a very specific case.

Mr. **Schroeder**. We do that all the time.

Senator **Rudman**. I'm sure you do, and I think you probably know what I want to talk about. Having laid a foundation for it, let's talk about the public meeting of the Board of Directors that took place March 24 of this year in New York City.

Is that the correct date?

Mr. **Schroeder**. I can't verify that. It's about the date.

Senator **Rudman**. I can assure you it is correct. That was the date of the public meeting. Did you, Mr. Schroeder, meet with any of the Directors on the evening before the meeting?

Mr. **Schroeder**. I did.

Senator **Rudman**. Did you meet with Mr. Masson that evening?

Mr. **Schroeder**. I did.

Senator **Rudman**. Where did you meet?

Mr. **Schroeder**. In a room that had been reserved by the Corporation.

Senator **Rudman**. Who else was present at the meeting?

Mr. **Schroeder**. Donald Thibeau.

Senator **Rudman**. I am going to ask you a series of questions about that, and I'm not suggesting any impropriety, Mr. Schroeder, I want to make that very clear, I'm not discussing any impropriety, I'm only talking about procedure and how this Board operates and how everything works out, because we do have witnesses, everyone's under oath, we're going to have some additional testimony on Friday, so I want you to consider carefully the following five or six questions: What was the purpose of the meeting?

Mr. **Schroeder**. The purpose of the meeting was to discuss what was going to take place the next day.

Senator **Rudman**. So you and Mr. Masson were going to discuss naturally what would take place the next day at the formal Board meeting.

This meeting with Mr. Masson, with Mr. Thibeau as a bystander, if you will, took place on the evening of March 23 in New York City?

Mr. **Schroeder**. Generally yes, I don't have the date.

Senator **Rudman**. I think that date is correct. I'll offer that as the date. If there's an error, it's mine.

Did you discuss specifically with Mr. Masson that evening the new communication plan for the Corporation and that you wished to amend bylaws and establish a new position of Vice President of the Corporation for SFC?

Mr. **Schroeder**. Yes, sir.

Senator **Rudman**. What did you tell Mr. Masson concerning the plan, just generally? I assume you were soliciting his support for that plan.

Mr. **Schroeder**. I told him what the plan was and what the job was to have accomplished. He asked if I wanted his support, and I told him yes.

Senator **Rudman**. Did you discuss the vote that would take place on that issue the following day?

Mr. **Schroeder**. Yes.

Senator **Rudman**. You encouraged him to vote with you on that issue?

Mr. **Schroeder**. Right.

Senator **Rudman**. That evening did you and Mr. Masson also discuss some projects that might be considered by the Board at the meeting the following day?

Mr. **Schroeder**. Yes, sir. A project I remember.

Senator **Rudman**. Did you discuss the Big Horn project?

Mr. **Schroeder**. Yes, sir.

Senator **Rudman**. What kind of project was the Big Horn project?

Mr. **Schroeder**. It's a small project out West.

Senator **Rudman**. Small, dollarwise; what are we talking about?

Mr. **Schroeder**. I don't know.

Senator **Rudman**. It's in the millions of dollars, even if it's small.

Mr. **Schroeder**. I'm certain it's in the millions of dollars, but frankly I don't know, Senator.

Senator **Rudman**. Mr. Masson that evening told you he favored that project?

Mr. **Schroeder**. No, he didn't tell me he favored it. He questioned whether we were giving the small companies such as the Big Horn Co. a fair chance to compete in the solicitation process, and it's my opinion that that question came to me from him because of a letter that I understood all the Directors had received that day—whether it was letter or a wire I don't remember for sure—but some attorney had written and I've seen three of the Directors' letters which were identical, making the charge that this was a small company and that they did not have the capital nor the manpower to respond as rapidly as our process had indicated that they must respond. And they were asking for some latitude in responding.

Senator **Rudman**. But your recollection is that Mr. Masson did not necessarily favor the project, your recollection is that he simply said you ought to consider it?

Mr. **Schroeder**. He questioned what we were doing and I told him that I didn't know a great deal about the project either. I'd read the same briefing papers that had been furnished to everybody, but I had no personal knowledge.

Senator RUDMAN. Did you recollect that Mr. Masson also discussed some water projects that night?

Mr. SCHROEDER. I'm not certain that he did, but he and I have talked about water projects many times. He's interested in the water situation in the West.

Senator RUDMAN. What is Mr. Masson's business, incidentally?

Mr. SCHROEDER. He's an owner of an engineering design firm out in Phoenix, Ariz.

Senator RUDMAN. Do you recall that evening Mr. Masson discussing Mobil Land Corp. with you?

Mr. SCHROEDER. Yes, I do. I think that came up that night. I do know he and I have discussed that. I'm not certain it came up, but it may have.

Senator RUDMAN. The Mobil Land conversation really had nothing to do with the Synthetic Fuels Corporation because the Mobil Land Corp. is not in any way involved in applying for funds.

Mr. SCHROEDER. That is right.

Senator RUDMAN. Is Mobil Land Corp. part of Mobil Oil?

Mr. SCHROEDER. Yes; of course Mobil Oil is not in front of us either.

Senator RUDMAN. I understand that. I just wanted to make out who they were. Now Mr. Masson is in the engineering construction business.

Mr. SCHROEDER. Yes. I don't think he's in the construction business.

Senator RUDMAN. Engineering design business. And he asked you to help him. We're not talking in your capacity as President of Synthetic Fuels but as an individual, to intercede in his behalf with Mobil to do something, did he not?

Mr. SCHROEDER. He asked me if I knew anybody with Mobil Land and I told him that I did.

Senator RUDMAN. Then what did he ask?

Mr. SCHROEDER. He asked me if I could find out if they had any work in his area of the country that he could bid on, and I told him that I would, but I'm not certain that came up that evening. It may have.

Senator RUDMAN. We will probably have testimony here that it did, so that's going to be someone else's recollection. Did you make the call?

Mr. SCHROEDER. Yes, sir.

Senator RUDMAN. Who did you call?

Mr. SCHROEDER. I called Harold Singleton, a man who has worked for me about five times since the early fifties and he's in charge of Mobil Land Developments' projects in the Palm Beach area.

Senator RUDMAN. Could you give us the essence of that conversation?

Mr. SCHROEDER. I just said to him, "Harold, could you tell me who's in charge of Mobil Land Development's work on the west coast?" He said, "I can't tell you right now, but I can look it up and I'll call you back."

So he did and he gave me a man's name in San Francisco. I think Harold wrote the man in San Francisco and said that I was a friend of his, and I was interested on behalf of another friend in any work that this man might bid on in the West.

The man wrote me back from San Francisco saying that he had no work now in Arizona, but if he had some, he'd keep Mr. Masson's name in his file.

Senator RUDMAN. Now Mr. Schroeder, I want to see if I can phrase this question properly. You were interested in getting, and very rightfully so as the President of this Corporation, Mr. Masson's support for something that you want him to do on the Board which you thought was in the best interest of the Corporation, and that was to get your plan adopted.

Mr. SCHROEDER. Yes, sir.

Senator RUDMAN. You were kind of lobbying him, to use the language of this place, to support your idea?

Mr. SCHROEDER. As I had lobbied everybody on the Board.

Senator RUDMAN. Fine, that's part of your job. And in the course of that conversation, or shortly thereafter, Mr. Masson asked you to do something in his behalf that was strictly of a personal nature that could lead to his getting some business, whether he does or he doesn't, from another major American corporation, Mobil Land, is that correct?

Mr. SCHROEDER. You're telling me that that's the testimony. I've told you that I'm not certain it came up that night, but I'm admitting that we have had that kind of a conversation, yes, sir.

Senator RUDMAN. I'm not putting any pejorative on it, admit or not admit, we're just talking about facts here.

Does it strike you that in that context, Mr. Schroeder, by offering to do that for him, it in some way could be looked at as an influence over his vote on a Corporation matter?

Mr. SCHROEDER. No, sir.

Senator RUDMAN. You don't think so?

Mr. SCHROEDER. No, sir.

Senator RUDMAN. In all the years you've been in business you're going to tell me that it's your opinion that on something as minor as voting in favor of an organization plan, by doing something for this gentleman outside your official capacity, although you are the President of this Corporation, that might not have some influence and he might not vote that way?

Mr. SCHROEDER. I don't think so under any circumstances. I don't serve with that kind of people.

Senator RUDMAN. Well, Mr. Schroeder, if you're talking about "that kind of people," the world we live in tends to be a world in which people try to help each other. There's nothing wrong with that.

But in retrospect, Mr. Schroeder, do you think that if other Board members come to you and ask you to make calls on behalf of their private businesses, that that's a good idea?

Mr. SCHROEDER. I think it's perfectly logical for us to discuss other people's business in a context. I wasn't on duty.

Senator RUDMAN. You're not on duty Mr. Schroeder, but you are the President of the U.S. Synthetic Fuels Corporation, to use Mr.

Noble's expression, one of the largest, giant—I think that's his word—venture capital investment banking houses in the country. You are, are you not?

Mr. **Schroeder**. I agree.

Senator **Rudman**. And you are 24 hours a day.

Mr. **Schroeder**. I agree.

Senator **Rudman**. And when you call someone at 3 o'clock in the morning or 2 in the afternoon or at midnight, when they talk to Vic Schroeder whom they respect and know, they're talking to Vic Schroeder, a friend who happens to be the President of the U.S. Synthetic Fuels Corporation, is that correct?

Mr. **Schroeder**. No.

Senator **Rudman**. You don't think so.

Mr. **Schroeder**. I've talked to a lot of people who don't look at me as the President of the U.S. Synthetic Fuels Corporation. Harold Singleton's one of them. I've known him since he was a 21-year-old man, and as I stated, he's worked for me several times, so this is a professional and personal relationship and has nothing whatsoever to do with the presidency.

Senator **Rudman**. Mr. Schroeder, I'm not suggesting that there's anything illegal or even unethical; but I'd suggest to you that after this hearing you talk to your present General Counsel as to whether he thinks it's a good idea for you to intercede on behalf of Directors' private business ventures.

I'm not talking about interceding for friends of yours around the country, I am talking about interceding in private business ventures for people who have to cast votes on major matters before this Corporation.

I submit to you, Mr. Schroeder, by my ethics, that isn't a good thing to do, and we'll leave it at that. I'm done, Mr. Chairman.

Senator **Cohen**. Senator Levin.

Senator **Levin**. I'd like to just proceed with a different ethical aspect of that same transaction. You say the call you made was to the Mobil Land Co.?

Mr. **Schroeder**. I think it's properly titled Mobil Land Development Co., but Senator, I'm not certain of that.

Senator **Levin**. They didn't have any business before the Synfuel Corporation?

Mr. **Schroeder**. Never have. They have never been before the Corporation.

Senator **Levin**. Are they related to Mobil Oil?

Mr. **Schroeder**. They are a wholly owned subsidiary of Mobil Oil.

Senator **Levin**. They are owned by Mobil Oil?

Mr. **Schroeder**. Yes.

Senator **Levin**. Did Mobil Oil have any business in front of the Corporation?

Mr. **Schroeder**. No, sir, nothing in front of the Corporation.

Senator **Levin**. Did you assume that it might have some business before the Corporation?

Mr. **Schroeder**. I didn't assume it. I know that it might.

Senator **Levin**. You knew that some day it might have some business before your Corporation.

Do you see any problem in asking a wholly owned subsidiary of Mobil that would be coming before the commission for a favor for a Director of that Corporation?

Mr. **Schroeder**. None whatsoever. It is so far disconnected that it makes no sense to me at all to connect it.

Senator **Levin**. That Director may be voting on Mobil's application.

Mr. **Schroeder**. I don't know what your question is. I would presume——

Senator **Levin**. If Mobil had an application before the Corporation, would that Director be voting or might that Director be voting on that application?

Mr. **Schroeder**. Certainly he might, yes, sir.

Senator **Levin**. Then you would be asking for a corporation whose parent might be or will be coming before the Corporation for a favor for a Director who might, indeed would be, later voting on a contract for that company. You don't have any problem with that one?

Mr. **Schroeder**. No. You are reaching out into space, in my opinion, for the connection.

I have told you the man that I talked to wouldn't have any—he is a developer of land and buildings on land. He wouldn't know what synthetic fuels was.

Senator **Levin**. Since our space program is so successful, let me keep reaching out in space just for a little longer.

Mr. **Schroeder**. All right.

Senator **Levin**. Let's assume that Mobil Oil presently has business with your Corporation, and they have a wholly owned subsidiary named Mobil Land Development Corp. Do you see any ethical question about calling that subsidiary and asking that subsidiary if they might throw some business to a Director who is going to vote on an application of its parent corporation?

Mr. **Schroeder**. I have never talked to somebody about throwing some business.

Senator **Levin**. How about giving some business?

Mr. **Schroeder**. Competing for some business I did talk about.

Now to answer your question, I would have some second thoughts about interceding with the corporation had they had a project before the SFC.

Senator **Levin**. You knew that Mobil would have a project?

Mr. **Schroeder**. No, I didn't know that Mobil would have. I told you that I had reason to believe that some day Mobil might have.

Senator **Levin**. Would you make that correspondence available for the record?

You said you wrote to the Land Development Corp. and that they responded in a letter to you.

Mr. **Schroeder**. I don't believe I wrote, but I believe I did write the man to thank him. But I think the matter has been made—I mean, the correspondence has been made available.

Senator **Levin**. The correspondence has what?

Mr. **Schroeder**. The correspondence that did pass has been made available and certainly is available now. I will see that you get it.

Senator **Levin**. Relative to that transaction, to help the Director?

Mr. **Schroeder**. Yes, sir.

Senator **Levin**. You have indicated that the recent relationships on the Board have improved. I believe that is your word.

Would you say that the relationships are good yet?

Mr. **Schroeder**. No.

Senator **Levin**. How would you describe them now?

Mr. **Schroeder**. Contentious.

Senator **Levin**. If they are now contentious and that is improvement, how were they before? [Laughter.]

Mr. **Schroeder**. Hypercontentious at one time or another.

Senator **Levin**. Has that hypercontentiousness affected the business of the Corporation?

Mr. **Schroeder**. Certainly, it has had some effect on it, in my opinion.

Senator **Levin**. It is something the American people ought to worry about?

Mr. **Schroeder**. No. In my opinion, it is not something that the American people necessarily should worry about. It is my opinion it is very natural.

I think seven directors, picked from all sorts of different disciplines and life experiences, all of them strong-minded people who had generally been in charge of their own businesses or somebody else's businesses, brought together in a new industry to pass opinions on large amounts of money, I think that it would be less than likely to find any amount of agreement beyond let's get the process accomplished in the most responsible way.

Senator **Levin**. Should the Congress worry about hypercontentiousness in the Corporation or not?

Mr. **Schroeder**. I think that the Congress has concerned themselves with that, so I shouldn't pass judgment on what Congress——

Senator **Levin**. We are passing judgment here by implication, on some of your activities. I am wondering whether or not you can tell us whether we should be concerned about hypercontentiousness on the Corporate Board.

Mr. **Schroeder**. The hypercontentiousness, in my opinion, is behind us.

Senator **Levin**. How about just the contentiousness? Are you worried about that?

Mr. **Schroeder**. I don't believe there is anything here to worry about.

Senator **Levin**. Even though it has affected the operation of the Board?

Mr. **Schroeder**. Certainly. It always affects it. It affects it positively as well as affects it negatively.

And the point that Senator Cohen was making a while ago concerning selecting an individual who had spoken out against something, I think is a process that is quite often used in order to get the serendipitous effect from different points of view.

Senator **Levin**. Would you say the amount of contentiousness—hyper until recently and now just contentiousness—is a normal level of contentiousness for a corporate board?

Mr. **Schroeder**. No, I wouldn't represent it as normal.

Senator **Levin**. It really exceeds the normal level, doesn't it, in all fairness?

Mr. SCHROEDER. I agree.

Senator LEVIN. We now have a Board which is telling us that we are not even going to reach one-third of the congressionally mandated goal for synthetics. The congressional goal, the declaration in the law creating the Synfuel Corporation, is that dependence on foreign energy resources can be significantly reduced by the production from domestic resources of the equivalent of at least 500,000 barrels of crude oil per day of synthetic fuel by 1987.

I guess, Mr. Bowden, you indicated it looks now like only 150,000 barrels per day by 1989. Was that your testimony?

Mr. BOWDEN. That is correct, sir.

Senator LEVIN. So we are not going to even reach a third of our goal, and that will be 2 years after the 500,000-barrel level was to be met.

Is that something we ought to worry about—the goal not being reached?

Mr. SCHROEDER. Yes, sir, it is something I have worried about a good bit. However, we have done everything that we know how to do responsibly to obtain as high a production daily capacity as possible under the circumstances.

Senator LEVIN. Except communicate with each other?

Mr. SCHROEDER. We have communicated with each other.

Senator LEVIN. What does Mr. Coughlan mean in his report, then, that there is a serious communications void at the Board level?

Mr. SCHROEDER. I think that his observations were accurate at that time.

Senator LEVIN. You have done everything you can to help us get to our stated national goal except communicate with each other?

Mr. SCHROEDER. I differed with your statement there at one time, and I will differ with it again. I would tell you that I quite agree with Mr. Coughlan that the communications were not what everybody wanted.

I would further tell you, Senator, that it is my opinion that the Board wasn't being told what it wanted to hear either, and there was a little confusion between the messenger and the message there.

Senator LEVIN. Would you agree with Mr. Coughlan that there was a serious communication void at the Board level?

Mr. SCHROEDER. I have just addressed that.

Senator LEVIN. Let me ask you to address it more directly then. Would you agree with Mr. Coughlan that there was a serious communications void at the Board level, to quote his report?

Mr. SCHROEDER. It depends on how you interpret the communications, but generally, yes.

Senator LEVIN. You would generally agree?

Mr. SCHROEDER. Yes.

Senator LEVIN. Let me just ask you about one contract. I understand that you made reference to the fact that you would like—or somebody would like to see additional competition for contracts from the Synfuel Corporation I believe you indicated that it was during that conversation that you had with Mr. Masson you made a reference during your discussion of that conversation to trying to improve the amount of competition for the Synthetic Fuels Corporation.

Mr. **Schroeder**. Yes.

Senator **Levin**. I am of course, and the chairman of this subcommittee and Senator Rudman and others are very much worried about lack of competition in Government procurement. Your procurement manual apparently does urge that there be competition for contracts.

I just want to ask you about the contract that was awarded sole source to a man named Mr. Carbonell in January 1983.

Are you familiar with that contract?

Mr. **Schroeder**. I am.

Senator **Levin**. Was that awarded sole-source, do you know?

Mr. **Schroeder**. It was awarded sole-source.

May I also correct what I understood you to say, at least, that our procurement manual recommends competition in sole-source contracts. We always have a degree of competition. We don't have a formal competition required by our procurement process.

Senator **Levin**. It is the basic policy of the Corporation that contract awards be based on competition wherever practicable, right?

Mr. **Schroeder**. Right.

Senator **Levin**. Was it not practicable to have a competition for that contract that Mr. Carbonell was awarded?

Mr. **Schroeder**. We did have a competition because I thought of three or four people that could possibly do what we wanted done.

Senator **Levin**. And solicited bids from all of them?

Mr. **Schroeder**. No, nothing formal about it, a matter of sitting down at the desk and deciding who might do this, who knew the people in the Corporation, who knew the Directors, who was capable of assembling this information and making a recommendation.

And Mr. Carbonell happened to be one of those individuals that was considered to do the job that Mr. Coughlan did. But Mr. Carbonell fell out of the informal thought process—competition, if you will.

Senator **Levin**. I don't will it. If you "will" an informal thought process as competition, your definition of "competition" is a lot different from mine.

Let me find out what it is. Are you saying that you thought about three or four potential contractors and decided in your own mind that Mr. Carbonell would be the best one?

Mr. **Schroeder**. That is right.

Senator **Levin**. That is what you call informal competition?

Mr. **Schroeder**. That is right.

Senator **Levin**. That is not what I call informal competition, to think about who could do it and then, without talking to anybody, decide, well, I am going to go with so and so and call that informal—informal or any other kind of competition.

Having been involved in this procurement issue—I don't want to compare myself with my colleague from Maine, who has more experience because of his time in the House, and Senator Rudman has other experiences—I don't call that informal competition, but let me get to another aspect of that.

Is Carbonell a friend of yours?

Mr. **Schroeder**. No, he is not a friend of mine.

Senator LEVIN. How about an acquaintance of yours?

Mr. SCHROEDER. Yes, sir, he has worked for me several times since the early 1960's.

Senator LEVIN. Had there been a prior business or personal relationship with him?

Mr. SCHROEDER. No personal relationship, sir.

Senator LEVIN. How about a business relationship?

Mr. SCHROEDER. I have testified, Senator, that he has worked for me several times since 1965 or so.

Senator LEVIN. Didn't the procurement manual, which was dated November of 1982, require that you include a statement identifying any prior business relationship with a proposed consultant in the file before that contract would be issued?

Mr. SCHROEDER. Mr. Ink, is that correct or not? I am advised it did not.

Senator LEVIN. That the procurement manual did not say that?

Mr. INK. That requirement came later, sir.

Senator LEVIN. I am reading procurement manual dated November 1982. I don't know who printed this thing. Page 25.

Do you have the procurement manual with you?

Mr. SCHROEDER. I have one before me.

Senator LEVIN. Take a look at page 25.

Mr. BOWDEN. Senator, if you turn to page 26 to see the legend which covers this question.

Senator LEVIN. The legend?

Mr. BOWDEN. Yes sir, it indicates that as of June 22, 1983, and the mark starts on page 25.

Senator LEVIN. I see. I understand. So that entire subsection (f).

Mr. BOWDEN. The part that is marked, sir. The last three lines on page 25 is not the entire subsection.

Senator LEVIN. I am not talking about the lines that are marked. I am talking about the front part of it. It says,

> An official and his cognizant vice president requesting issuance of a consulting agreement for services of individuals, whether directly or through a company, shall include with the request written, signed statements identifying any prior or current business or personal relationship with the proposed consultant.

That was in effect in November 1982, wasn't it?

Mr. SCHROEDER. I am told that on page 25, section (f) down through the word "selection" that would eliminate the bottom three lines, but it included March 11, 1983. That is what I am advised by the man that is in charge of our procurement contracts.

Senator LEVIN. So the lines I just read were not in effect at the time of the Carbonell contract?

Mr. SCHROEDER. I am sorry, Senator, I don't know exactly what you are asking me.

Senator LEVIN. The lines that I just read from your manual were not in effect?

Mr. SCHROEDER. I didn't follow them.

Senator LEVIN. They start at (f): "An official and his cognizant vice president."

Mr. SCHROEDER. Those are the lines I am referring to. So you and I are talking about the same lines—one, two, three, four, five—six lines and two words.

Senator LEVIN. They were not in effect at the time of the Carbonell contract?

Mr. SCHROEDER. That is what I am advised, yes.

Senator LEVIN. A last question on this. In July 1982, your Inspector General, in his audit, found that the absence of an up-front disclosure statement—requesting contracts point out and would disclose any previous business or personal relationship—was a weakness, the absence of a disclosure statement, and you felt that the IG's report in and of itself was not enough to have you put such a statement on file in the absence of a formal procurement requirement to do so.

Is that what you are saying?

Mr. SCHROEDER. No; I don't know that that thought or the IG's recommendation crossed my mind.

Senator LEVIN. Thank you, Mr. Chairman.

Senator COHEN. To follow up on that question, Mr. Schroeder, the contract files indicate that you approved that consulting contract on January 3, 1983.

Mr. SCHROEDER. Yes, sir.

Senator COHEN. That's after the procurement manual was assumed to be operative.

Mr. SCHROEDER. Parts of it, yes, sir.

Senator COHEN. Which parts of it were not operative?

Mr. SCHROEDER. The one I just testified to on page 25. Senator Cohen, are you with me?

Senator COHEN. I've got your section. Do you think, as a matter of practice, one of the problems is that the SFC is not covered by procurement laws. On October 28, 1981, the Board of Directors approved a policy directing procurement be made from the highest quality sources at the lowest reasonable cost and in accordance with the best commercial and Government practices. That goes back prior to the manual.

Mr. SCHROEDER. Right.

Senator COHEN. You voted for that policy?

Mr. SCHROEDER. Yes, I did.

Senator COHEN. And to implement this policy, do you believe that all Synthetic Fuels Corporation contracts should contain a full justification for the need for the contract?

Mr. SCHROEDER. I think that's a good policy.

Senator COHEN. Should contract files also contain a full justification for the solicitation procedures used? That is, if you are going to award it noncompetitively, that there be an explanation as to why you do so?

Mr. SCHROEDER. I think that's a good policy.

Senator COHEN. Did you agree with the comments by Mr. Noble at the October 28, 1981, meeting that the Synfuels Corporation would use outside consultants sparingly and only when necessary?

Mr. SCHROEDER. Right.

Senator COHEN. Now, again, going back to November of 1982, the Corporation issued a procurement manual which prescribed policies and procedures for the procurement of supplies and services. The GAO has described this as being essentially the elements of a good procurement system. I agree with that. And I assume you supported those procedures, right?

Mr. SCHROEDER. Right.

Senator COHEN. The Corporation's procurement manual states that the previous experience with a particular consultant may be useful for evaluative purposes, but should not be the only basis for selection of a noncompetitive award.

Mr. SCHROEDER. Where are you, sir? Are you reading from the procurement manual?

Senator COHEN. I'm reading from the manual.

Mr. SCHROEDER. All right. We're with you, sir.

Senator COHEN. Do you agree with that?

Mr. SCHROEDER. Would you repeat what you said?

Senator COHEN. Previous experience with a particular consultant may be useful for evaluative purposes, but should not be the only basis for selection on a noncompetitive basis.

Mr. SCHROEDER. Certainly.

Senator COHEN. You agree with that?

Mr. SCHROEDER. Certainly.

Senator COHEN. What expertise did Mr. Carbonell have that made him so unique that would have justified a sole-source award? What did he have?

Mr. SCHROEDER. He had a good many years' experience, part of it doing exactly what I needed done here, in the city of Atlanta, particularly in the Peachtree Center area. We had a terrific communications problem. That term is a rather generically applied term. The communications in that case were having to do with public relations, the police department and the safety on the streets, and our own policies in the projects that I was responsible for. And he put the framework of the communications system together for me, down there as a consultant and did a good job of it. He had also worked for me in communications, in a graphic sense, before that, in 1965, and I believe in 1970, doing somewhat the same thing. And he'd always done a good job. He became available around the first of the year, and we needed to go ahead and implement the portions of the Coughlan report that needed doing then. That's why I retained him.

Senator COHEN. What did he do for you?

Mr. SCHROEDER. What did he do? He put the mechanism together that was later furnished the Board.

Senator COHEN. What mechanism?

Mr. SCHROEDER. To carry out the recommendations that I was making to the Board.

Senator COHEN. What mechanism did he put into place?

Mr. SCHROEDER. I can't sit and recite to you what mechanism has been put in place. It's my understanding that that report that he made was furnished your committee. I think the dates are about March 18.

Senator COHEN. For improving communications among the Board of Directors?

Mr. SCHROEDER. That's right. Not only among the Board of Directors, Senator. I told the Board that what I read in the Coughlan report was a much broader kind of an approach to the communications problem, because it wasn't just among the Board of Directors. It was concerning communications with the Congress, with the news media, with the constituents and among the officers in the

Corporation, and between the officers and the Directors. So this is not just with the Board of Directors.

Senator COHEN. In other words, what you're saying is, that you basically agreed with the elements of the Coughlan report that communications was a serious problem, not only among the Board of Directors, but with industry, with Congress, with the media, and in essence, adopted the Coughlan report, in terms of the communications' aspect and simply eliminated the task force requirement?

Mr. SCHROEDER. No, that's an oversimplification of it, but certainly, it's always a serious problem, if you call it a problem. I would prefer to call it a task. And this is a most complicated task, because most people are really not interested in learning facts. They're interested in learning what they want to learn about it. So you have a very diverse contingent going on there.

Senator COHEN. You say the Board of Directors were not interested?

Mr. SCHROEDER. I didn't say that. It's taking totally out of context what I said. I said—and I named the several different organizations and entities that I felt communications needed to be coordinated among.

Senator COHEN. The Board of Directors?

Mr. SCHROEDER. The Board of Directors, the news media, the industry itself, within the Corporation, between the officers and the Board.

Senator COHEN. Is that what Mr. Coughlan said?

Mr. SCHROEDER. No. That's not directly what he said. That's what I drew from what he said. Because it wasn't simply what the Board had been told or not told that came out in the Coughlan report.

Senator COHEN. The Coughlan report will speak for itself, but I read the Coughlan report fairly carefully, and he went well beyond communications with the Board of Directors. He talked about problems with the media, problems with Capitol Hill and recommended essentially what you're saying you agree with.

Mr. SCHROEDER. You and I are in agreement.

Senator COHEN. Since that time, you've indicated that relations have improved among the Board of Directors, not good, but improved. I raised the questions about abstention of votes at the May meeting. According to the records that we have concerning the approval of the April meeting minutes, Mr. Carter, Mr. Wilkins, and Mr. Monks abstained on one vote. Second, on the approval of the terms of the competitive solication of the gulf coast lignite project, Monks and Wilkins abstained. On the approval of the system of organization and approval of a by-laws amendment, Carter, Wilkins, and Monks abstained. The resolution to close a portion of the meeting, Wilkins and Monks abstained.

That's a lot more than two items. You indicated on two items only. I count one, two, three, four.

Mr. SCHROEDER. If I said two, I'm sorry.

Senator COHEN. Mr. Bowden, do you want to speak?

Mr. BOWDEN. If I may, sir, please. The question you asked and the question Mr. Schroeder responded to was the conditions under which three members abstained. He answered, two. That was also your recollection. There were three abstentions on two issues. There were two abstentions on two additional issues.

Senator **Cohen**. Have you had a situation before where Board members have abstained from voting?

Mr. **Schroeder**. Yes, sir.

Senator **Cohen**. Throughout the period of the Synfuel Corporation?

Mr. **Schroeder**. Not the Synthetic Fuels Corporation. I don't recall an incident where a member abstained.

Senator **Cohen**. Mr. Schroeder, in August 1982, a number of Corporation officials traveled to South Africa. I assume the purpose of that was to study the South African synthetic fuels project, being the only country to have a fully operational synfuels industry, correct?

Mr. **Schroeder**. Yes, sir.

Senator **Cohen**. The contract files indicate that you authorized a contract for Adm. William Mott to provide you and Mr. Noble with assistance in developing and conducting a visit to South Africa. He wasn't paid but a dollar for his consulting services, but he did receive transportation expenses, is that correct?

Mr. **Schroeder**. I wasn't aware that I was the contracting officer, but I presume you're reading the record, so the rest of it's correct.

Senator **Cohen**. You were, in fact, the authorizing official.

Mr. **Noble**. Sir, may I interrupt. I apologize for being absent. I was not the contracting officer either, but I would like to say this on behalf of Admiral Mott. He has been with the National Strategy Information Center, I think, I don't know, for almost the last 10 years, I think, for sure, and I don't know how much before that. Admiral Mott is a recognized authority on strategic nonfuel and fuel minerals. And I think his willingness to go on this trip just for his expenses was well worth the money to the Corporation. Ordinarily, I'm sure he would have charged a fee, except for the friendship with me over the years. He volunteered his services free.

Senator **Cohen**. You say he is an expert in fuel projects?

Mr. **Noble**. He's an expert on the strategic value of both nonfuel and fuel minerals. He's written extensively on it. He keeps up on it.

Senator **Cohen**. You don't have anybody in the Corporation, within the Corporation?

Mr. **Noble**. No. not really, no. You know, I felt that it was a real asset to the Corporation that he would go without any consulting fee, but just his expenses. So I don't have any apologies for that whatsoever. I think we got a very good value.

Mr. **Schroeder**. Senator Cohen, I have in front of me a document dated June 23, 1982, "Consulting Agreement," page 4. It shows Consultant William C. Mott. It shows the vice president for administration as the contracting officer, but that, in itself, sir, may I say, is not significant, since that's an administrative type of task. In some cases, someone will need a contract signed, and we have some amounts that are prescribed, and different people will sign the contract, as contracting officers.

Senator **Cohen**. And you just authorized it?

Mr. **Schroeder**. That's right.

Senator COHEN. Mr. Noble, I'd like to come back to that issue that was raised earlier by Senator Rudman. Were you contacted by Mr. Thibeau concerning the events that took place in New York?

Mr. NOBLE. Yes, I was.

Senator COHEN. What was the date of that?

Mr. NOBLE. I don't remember the date, but he mentioned this to me. And Senator, I looked into it. I told him at the time, and I knew something about the two propositions, when I looked into it. I found, No. 1, that the question of the Big Horn matter, everyone voted exactly the same and, No. 2, the issue that Mr. Schroeder was interested in, selling his views on the reorganization plan, that the matter was deferred to the next meeting.

So when I looked at those two votes, I thought that was the case before I looked it up, but I did it to make sure, I felt there couldn't be much vote trading in that kind of situation, so I didn't give it further thought, until two Directors said directly that they questioned whether or not there was some sort of vote trading or something not representative of what we would want in the Corporation. I thought about that overnight, and I decided personally—I guess we met on Friday, this was Thursday, and I got back to Washington on Monday. I had already made up my own mind that I would turn this over to the IG because I felt that I had made a personal judgment.

Senator COHEN. When was that judgment made, sir?

Mr. NOBLE. It was right after I returned. As soon as I returned, I made the judgment that I was going to turn it over to the IG. I discussed it with the two Directors, but I had already made the judgment. And I want to say on their behalf that they insisted that it be turned over to the IG, both to protect the integrity of the process and the Corporation and their own integrity.

So I felt like everyone dealt with that in a very forthright manner. In addition, the Big Horn question, as Mr. Schroeder told you, every Director had a letter that was put on their desk just a day or so before the meeting. Mine gave me concern, because, you know, we have been concerned that while these projects, for the most part, are very big projects and do eliminate a lot of smaller entities, this, in fact, was a small corporation and a small project. And I felt, personally—this was without any knowledge of any meeting by Mr. Schroeder or Mr. Masson. I felt, personally, when I got the letter, and this attorney represented that there was only one item that they had not completed, and that being a small company, they didn't have the staff to complete it, and they just needed 30 days, or whatever it was, to complete this one item.

Now, I personally asked Mr. Axelrod, our vice president for Technology—not knowing of any of this at the meeting, I personally asked a question, because I was concerned about a small company, not having the staff of a big company, being disadvantaged, so to speak, or put at a disadvantage. And when Mr. Axelrod said, "Well, yes, they have not done this that they mentioned in their letter, but they've not done, this, this, this"—about five or six things, then I think the whole Board realized that it was kind of a red herring, or at least a little inaccuracy on the part of the person that had written that letter. So it wasn't surprising to me, that every Director, when they heard the facts, voted the same way.

So I, personally, notwithstanding my judgment that I had made earlier, as soon as the charge was brought by one Director, in particular, in the company of another Director—if just one Director had done it, I'd have turned it over to the IG. I think that has to be done to protect the process.

Senator COHEN. But you already determined in your own mind to turn it over to the IG, had you not?

Mr. NOBLE. When my assistant brought it up to me, then I went back and looked at the vote and saw that everybody voted together. When I saw that the other item had been deferred, it sure didn't look to me—and admittedly, I just made the judgment that he was mistaken, but when it was brought up by the Director, then I thought, "Hey, I'm going to make sure this is correct, and I want somebody else to make that judgment besides me." But I can hardly see how vote trading that involves a 7-to-0 vote could have taken place when all voters voted alike.

Senator COHEN. I am going to declare a 10-minute recess, and then resume at 12:15.

[Recess.]

Senator COHEN. The committee will resume.

I apologize for holding you. We will continue for another half-hour before we break for lunch, and continue for the rest of the afternoon apparently.

Mr. Noble, let me come back to an item which is still a concern to me. That is the incident in New York. You were contacted by Mr. Thibeau shortly after the incident allegedly occurred, correct?

Mr. NOBLE. Actually, it was a few days after, as I remember. I really don't.

Senator COHEN. About a week. And at that point you indicated to him that you would look into the matter, and you did, and you went back and looked at the votes that took place at that meeting, correct?

Mr. NOBLE. Yes, sir.

Senator COHEN. Assuming that the votes did not go the way in which perhaps one of the members suggested that they do, in your judgment, does that in any way diminish the significance of what took place? Namely, and let me put it in context, if I can. You have got serious friction between the Board members. You have got a serious question being raised by some about why the Coughlan report wasn't taken up formally with the Board members. You have got a continuing controversy on three of the members. Suddenly, you have a proposal that is going to come before a meeting scheduled in New York, and there is a meeting prior to that time between Mr. Schroeder and Mr. Masson, in which there is at least a request on the part of one Board member to have Mr. Schroeder use his contacts to help him out on a personal matter.

There is the request by Mr. Schroeder to that Board member to help him win the vote tomorrow because as it is it is split pretty much 4 to 3. You have got three members who were insisting on a certain course of action or insisting they weren't going to support the recommendation of Mr. Schroeder, so Mr. Masson becomes a key swing vote.

Aside from the legality—and that is something I can't pass judgment on—but aside from the legality of that, don't you find that personally to be improper, however they voted?

It is not a conspiracy. It is not whether it is ever carried out. It is the question of the act itself: People getting together to agree on a certain course of action. It doesn't matter whether it never takes place.

The question is: do you think that is proper for two members of the Board to be together discussing "Would you do this for me?" and another member saying "Would you do this for me?"

Mr. **Noble**. I am not sure what was said, Senator.

Senator **Cohen**. Assuming everything Mr. Schroeder said was correct—and I won't disagree with that for a moment——

Mr. **Noble**. He was selling his position. I think that is a very legitimate thing to do, for him to sell what he is trying to accomplish.

Now, as a matter of fact, when it got to the meeting, the reason that this whole idea of a corporate vice president was in place was to try to improve communications, and when I chaired that meeting—and I think I very candidly said that if this does not satisfy the needs of the Directors, if they feel the communication has not been sufficient, then I suggest we set the motion aside, and I am the one who made that motion, or at least made that suggestion.

And I have not viewed—I think one or two members of the Board may have been particularly exercised about this.

Senator **Cohen**. Weren't there three?

Mr. **Noble**. On this question——

Senator **Cohen**. Three members who were exercised about it?

Mr. **Noble**. That is correct, but, you know, we operate as a quorum. It is just like everything else. It is not ever intended that we would have to unanimous, and I think in a way that that is good. We are not a rubber stamp Board.

Senator **Cohen**. Do you think 4-to-3 splits on corporate policy is the way in which most private industry operates?

Mr. **Noble**. This happened on one occasion in several meetings. So I think we are really making it a bigger issue than it is, not for the individuals at that time. I am not saying that. But we have done everything that we can to improve the communications.

Senator **Cohen**. Let me just ask you, do you feel that it really is in the public interest to continue to have a 4-to-3 split with a major Corporation on the Board of Directors?

My understanding is that the private sector—you have one or two who dissent.

Mr. **Noble**. On a given vote?

Senator **Cohen**. On a matter of policy. This isn't just one vote. We are talking about overall corporate policy. I haven't even begun to talk about the question of what is your plan, what is the game plan.

Mr. **Noble**. Senator, excuse me. If you will look—I don't know of but one vote in the whole time of the Corporation that was 4 to 3, one vote in 2 years that was 4 to 3.

I don't look at that——

Senator **Cohen**. But this has been something that has been festering for well over a year.

Mr. Noble. It has been festering, but, believe me, I have tried to ameliorate it, and I am still trying, and I hope—because I have respect for all these Board members. They all have a lot to contribute. They are all very strong people with good ideas.

So the fact that there is one vote that is 4 to 3, I just don't think——

Senator Cohen. What is that one vote? I have a document, a copy of a letter, that was handed to you by two of the Board members, with the concurrence of a third, calling for Mr. Schroeder's removal.

Mr. Noble. Now, wait just a minute. I didn't intend to bring that letter up.

Senator Cohen. Well, I did.

Mr. Noble. But when it was brought to my attention, I asked if the third member had seen it, and he said he has not. So I thought that was a little bit not correct either to not have shown that Director that had his name on that letter, not signed.

Senator Cohen. Do you know whether the contents were discussed with him?

Mr. Noble. I don't know whether it was discussed before or after, but he said he did not have his permission at that time to put his name on it.

Senator Cohen. That member said that he did not?

Mr. Noble. You know, I don't see that this serves any purpose, to get into this.

Senator Cohen. I think it does because it strikes at the heart of this particular management of this company, as to whether or not the divisions are split, whether it is 4 to 3 or 5 to 2—I suspect it is closer to 4 to 3—as to whether or not you can continue to carry out the corporate mission.

Mr. Schroeder. May I speak?

Senator Cohen. You may.

Mr. Schroeder. I am not familiar with any 4-to-3 vote, so I am not sure where your 4 to 3 comes from, Senator.

Senator Cohen. I am talking about a letter that was hand delivered to the Chairman of the Board that had the concurrence of at least two of the members. It was in the presence of two.

Mr. Schroeder. It wasn't signed, was it?

Senator Cohen. It was handed by two members of the Corporate Board.

Mr. Schroeder. Was it signed, sir?

Senator Cohen. Does the signature make a difference to you?

Mr. Schroeder. Yes, sir, it does. A blank piece of paper with some typing on it is one thing, but somebody having put in their signature on it is quite another.

Nonetheless, I don't know of any 4-to-3 votes that we have had on the Board. There may be some, Senator, but I am unaware of them.

Senator Cohen. Did the third person disavow this particular letter?

Mr. Schroeder. I have never talked to him about it.

Senator Cohen. You have never talked to him?

Mr. Schroeder. No.

Senator COHEN. You didn't have sufficient interest to talk to the Board members as to whether they want you to continue as President?

Mr. SCHROEDER. You are taking out of context totally what you asked me.

Senator RUDMAN. While Senator Cohen is reading it, if I could ask a brief question?

I was listening to your last exchange. If someone on the Corporation handed you a memorandum simply expressing some views, because they didn't initial it or sign it you would not consider it valid, is that correct?

Mr. NOBLE. Excuse me, sir. I am the one that got the letter.

Senator RUDMAN. Mr. Schroeder, in response to a question from Senator Cohen, said they didn't sign it, but it was handed to him by a Board member.

Because it wasn't signed, you didn't think it was authentic?

Mr. SCHROEDER. Certainly, I don't think it is authentic. It is just a piece of paper with some typing on it. Unless somebody signs something and says this is my position, it has no real force.

Senator COHEN. You signed something and you didn't even know what was authorized. I'm talking about the contract.

Mr. SCHROEDER. Sir?

Senator COHEN. You signed a document that you really had no relationship to.

That is not your signature on that?

Mr. SCHROEDER. It is Mr. Dwight Ink's signature on that.

Senator COHEN. It is your name.

Mr. SCHROEDER. It is not my name.

Senator COHEN. It was authorized by you, was it not?

Mr. SCHROEDER. I would have to pick it up again.

May I pursue that, sir? May I have a copy of that?

I am the authorizing officer.

Senator COHEN. That is your signature?

Mr. SCHROEDER. On the request for the consultant, yes, sir.

Now, did you go ahead and say that I didn't know anything about it?

Senator COHEN. You said you weren't the one who personally approved this particular matter; this was someone else who made the request and you signed off on it.

Mr. SCHROEDER. I said the contracting officer was Dwight Ink. That is what we were talking about—who was the contracting officer at that time, Senator.

Senator RUDMAN. Who told him to make that contract?

Mr. SCHROEDER. I signed the authorization.

Senator RUDMAN. Contracting officers don't come out of thin air, Mr. Schroeder, and decide what to do. Who told Mr. Ink to go ahead and prepare that contract? A simple question: who did it?

Mr. SCHROEDER. I don't know.

Senator RUDMAN. You have no idea—or ask Mr. Ink?

Mr. SCHROEDER. I know who signed it.

Senator RUDMAN. Ask Mr. Ink. Maybe he has got a better memory.

Senator COHEN. Let me come back to the major point. There was a request made by two Board members, with, I believe, the concurrence of a third, to make suitable arrangement for termination of the services of the incumbent President at or before the May 26 Board meeting.

That is not just a vote; that is pretty serious.

Mr. NOBLE. I took it very seriously, Senator. I took everything in that letter very seriously.

The thing that I did think was very incorrect was the putting of all three members, names when one member had not seen the letter, and I am not sure that he had had it gone over with him until the other member rode home with him on an airplane.

He did tell me later that he generally concurred—not totally, but generally concurred.

Now, I would not have put somebody's name on a letter that was that——

Senator COHEN. What do you mean he generally concurred? What does that mean?

Mr. NOBLE. I don't know for sure what it means. I guess you would have to ask him.

But I took the letter very seriously, and when I got back, I made up my mind that I was going to turn it over to the IG. I thought that was the only proper way to do it.

I am talking about the question raised by the letter. But the letter was not signed, sir, and I would not make those kind of charges and not put my name on it.

That is just the difference. I just wouldn't do it.

Senator COHEN. Let me go back again. You have got two members who came to you personally, in your presence, and handed you this document?

Mr. NOBLE. That is correct. I guess that is the letter.

Senator COHEN. I will show it to you.

Mr. NOBLE. I am sure it is.

Senator COHEN. Specifically requesting an investigation, specifically requesting to terminate the service of the President of the Corporation before the next meeting and to appoint a committee consisting of yourself, and Mr. Bowden to develop for the Board's prompt consideration and approval at the scheduled meeting a new organizational plan.

What I am getting at is this is not simply one incident; this has been building and building and building; and here we are as recently as this spring. When you have got a split like that, I don't know how the Corporation can function, frankly, in that atmosphere.

Mr. NOBLE. It has been very difficult, but most of the hard feelings have been one Director. I am sorry about that, and I value that Director's judgment. He is a good man. He has good ideas. But I feel like his tactics have been not very conducive to making this a good team.

Senator COHEN. This is Mr. Monks? Is that fair?

Mr. NOBLE. I'm not saying.

Senator COHEN. Well, then let me say Mr. Monks. Is that fair?

Mr. NOBLE. You may say whatever, sir.

Senator COHEN. How about Mr. Wilkins?

Mr. NOBLE. Mr. Wilkins is a good friend, a good advocate of the things he believes in.

Senator Cohen. He is one of those who came to you?

Mr. Noble. Exactly, and he was very concerned, and we have tried to address them. But I don't know what something like this helps to make feelings pull together. That is what we are trying to do, sir.

For us to talk about all this publicly makes it very difficult for me, because, as I say, I sincerely value those people's judgments. Because we don't agree on everything doesn't make them right and me wrong or vice versa.

Senator Cohen. And I totally agree with that. I don't think there is any right or wrong, and I am not passing judgment. I have tried to indicate to you that you are held in fairly high esteem by a lot of people, and I am not criticizing.

All I am trying to do is describe an environment which I think has had an impact upon the functions of the Corporation, initially because of a perception among industry that the Corporation really wasn't committed to carrying out its mandate, then second because of divisions within the Board itself as to the lack of a plan, a game plan.

This has been a persistent criticism that I have detected in reading the minutes of the meeting. I detect it in reading Mr. Coughlan's report.

Mr. Noble. I think we have had a very definite game plan. Admittedly, we have had a tough job building a whole new company. We didn't start with a company that had had some years of experience.

We started with all new people. As far as we were concerned, it has been very difficult.

Senator Cohen. Isn't the essence of the so-called "outside Directors"—the nature of their complaints is there doesn't seem to be any strategic plan; namely, that you set certain goals and a timeframe?

I see the document that Mr. Schroeder—I will be happy to discuss that.

But basically, let's compare it to a business operation or, ultimately, to a political campaign. In a business operation, you say we have got to sell so many widgets during the course of this year to make so much of a profit to pay all these employees, and if we aren't selling enough, then we have got a problem either with our salesmen or our advertising campaign or our product.

If we find during the first quarter that either one of those three is not functioning correctly, we have got to change it. If we don't change it, we are going to be bankrupt by the end of that year.

The same thing holds true with respect to a campaign. If I have got to run for election by November 1984, I have got a certain timeframe that I have got to set up an organization of counties. I have got to hire certain people. I have got to put those people to work. I have got to have them produce a number of volunteers, a number of contributions, and if they don't produce, I either change the personnel or I change the plan or I give up the campaign.

But it seems to me that that has not been present in anything that I have seen to date, and that has been not my judgment solely. I look at the minutes, and this is what the Directors are saying—where is the plan?

Mr. **Noble**. I think a while ago, Mr. Schroeder said that sometimes, I took time to look back through the minutes in preparing for this hearing, and as I looked back through the minutes, every time we were talking about communications, I saw a consistent fact, that basically they were not so much concerned about communications as frustration in the fact that we haven't been able to do the job as quickly as we had hoped we could.

I contend that if there's not a project out there for instance that's mature enough in whatever resource base we're talking about, that it does take time.

I'm not sure how much this contention helps the overall program.

Senator **Cohen**. I don't think it does. You've got a problem.

Mr. **Noble**. We were very highly criticized by one member for having a third solicitation. That third solicitation brought in 46 sponsors. In hindsight it was a good thing that we had it. We've all been concerned—all of us have been concerned—that we haven't been able to move ahead fast enough with the competitive.

I don't think any Director wants to not have something just as absolutely competitive as we can make it, but the process that we have to go through, for instance, to get to directed negotiations is something that I've been concerned about, Mr. Monks has been concerned about, we had to go through the daisy chain of doing it the way the law says to do it.

It's caused us frustrations, but I'm not sure what we accomplish by pointing fingers at each other.

Senator **Cohen**. Because I think ——

Mr. **Noble**. We've got some very capable people.

Senator **Cohen**. Let me interrupt you here for a minute, Mr. Noble, to say that I read the Coughlan report. What he said in essence was that everybody, including Mr. Schroeder and Mr. Bowden, everybody wants to make the thing work: You all have ultimately the same goal in mind, that is to make this thing achieve the energy independence that they need, so there is no question of motivation here.

There is division about carrying that out, there is a strong personality clash, which I think is evident, but I'm not interested in personality clashes. I don't care whether one member says he doesn't like the way you're doing business; that's not my problem.

But when you have three members who are concerned about it, or three members who raise a substantial issue in my mind about whether or not management ought to continue, then I think it's time for Congress to take a look and see what's been going on.

Mr. **Noble**. Let me say since that, two of those three members have told me personally that they thought we were making some real progress.

Senator **Cohen**. Let me tell you something, Mr. Noble. I think since these hearings were called a great deal of progress has been made. I've been getting calls from members of the Board of Directors saying that things are great, they really have dramatically improved. Letters are coming in that we've got more information than we ever had before, things have picked up substantially.

So maybe the hearings themselves have had a salutary impact already. But that really is something the Board ought to be aware of.

This committee—and I assure you the Energy Subcommittee—is going to continue to say let's shape up, let's put this thing back on track, or get rid of it. But we're not going to have the continued kind of conflict with outside versus inside Directors and not have the mission accomplished; either we can't accomplish it, therefore we go in a different direction. We're not going to continue the way we're going.

Mr. Noble. I'd be happy to give you all the credit in the world, but most of that information has been coming in long before the announcement of this hearing has been made.

Senator Cohen. I've been looking at all the correspondence and I've noted there's been a decided increase in substantive communication very recently, within the last 10 days of this scheduled hearing, and I commend you for it. I think it's important, I think it's long overdue.

Mr. Schroeder. I thank you ever so much for your comments, but you're wrong. I would like also to tell you, Senator, that I hope that benefits come from this hearing.

I would be less than frank if I did not tell you that the Corporation has been somewhat paralyzed by the speed with which this information has necessarily been drawn together in order to have this hearing the day before a critical Board meeting, and the day after a critical Board meeting.

And I can attest to the fact that the pressures that are on normal business at the Corporation are significantly increased because of the timing of the hearing.

Senator Rudman. Mr. Schroeder, that well may be true, but let me simply tell you that when you are dealing with up to $17 billion of public money, you are not running a private enterprise. The problem that most people have coming from private enterprise to Government, a natural problem, is not to understand the full impact of what that means.

You say that the preparation of these hearings has nearly, to use your words, paralyzed the agency.

Mr. Schroeder. I didn't say agency, but the Corporation, yes.

Senator Rudman. My understanding is that you've had some rather extensive rehearsals for these hearings, from my information; is that correct?

Mr. Schroeder. We've had mock hearings.

Senator Rudman. You've had some mock hearings, and I understand you had people play the role of at least the chairman and maybe other members also.

Mr. Schroeder. That's right.

Senator Rudman. Why did you do that?

Mr. Schroeder. To prepare for the hearing.

Senator Rudman. Is there some great difficulty in simply coming to a hearing and simply stating the facts as they are?

Why would you have to have a play acting before coming? I've never heard of that before.

Mr. Schroeder. I have.

Senator Rudman. In what agencies?

Mr. SCHROEDER. I don't have an agency to name.

Senator RUDMAN. You've heard of Government agencies who have mock hearings before they come up on the Hill?

Mr. SCHROEDER. Yes.

Senator RUDMAN. Do they have briefing books?

Mr. SCHROEDER. Yes, sir.

Senator RUDMAN. Who played the part of the Chairman? I'm curious.

Senator COHEN. So am I.

Mr. SCHROEDER. One of the staff members.

Senator RUDMAN. One of the staff members? That's as far as you'd like to identify the staff member?

Mr. SCHROEDER. Yes.

Senator RUDMAN. Did you have people play the roles of other members of the committee?

Mr. SCHROEDER. You said that a while ago, I agreed with it. The answer is yes.

Senator RUDMAN. I also understand that the Corporation or individuals purchased five copies of the Chairman's recently published book; is that correct?

Mr. SCHROEDER. I'm not aware of it if it is. I haven't seen the recently published book.

Senator RUDMAN. Mr. Bowden, are you familiar with that?

Mr. BOWDEN. Senator, I did read it in the Bangor, Maine, Daily News article. It's entitled "Monks, Cohen Allied in Synfuels Power Struggle."

Senator COHEN. Excuse me?

Mr. BOWEN. That's the opening line.

Senator RUDMAN. You don't know about it, Mr. Noble?

Mr. NOBLE. No, sir.

Senator RUDMAN. How much time was spent preparing for the hearings with these mock hearings?

Mr. SCHROEDER. I don't have a record of that.

Senator RUDMAN. Just as a general idea?

Mr. SCHROEDER. I don't have a general idea. I have read everything that was prepared and everything that was sent up here to the committee, so I've spent a good many hours at it.

I think also Senator, a while ago we were talking about the special meeting of the Board of Directors, and I've since had an opportunity to look at what was recommended at that special meeting of the Board of Directors.

It was the development of statements of policy. It was to be an unofficial meeting of the Board of Directors, it was to prepare detailed plans of implementation of Board policies, specifications for approaches to be used in the establishment of comprehensive strategies and determinations of responsibilities to be assumed by the Board.

These are all—I'm advised by counsel—processes that cannot be taken up properly in an unofficial meeting, and that rather clears up the conversation, so far as I'm concerned that you and I were having a while ago about the social meeting.

Senator RUDMAN. I'll make my previous question a bit simpler. How many times, on how many different occasions, did you convene a mock hearing?

Mr. **Schroeder**. Twice.

Senator **Rudman**. Mr. Noble, I want to ask you one question quite separate from Mr. Schroeder's answer. This letter addressed to you, it's not the contents of the letter, it's the atmosphere that I've been concerned about.

I might point out that I serve on the Appropriations Committee and serve on the Interior Subcommittee of Appropriations, so I am intimately familiar with the report language which Senator Cohen referred to.

This letter is addressed to you. It has three numbered paragraphs. It talks about certain specific incidents. It makes a couple of requests. It suggests the appointment of a panel—it says it's a formal request—and it says "respectfully submitted," then it's typed "J.B.C."—I assume that's Mr. Carter; "H.W."—I assume that's Mr. Wilkins; "R.A.G.M."—I assume that's Mr. Monks. And that was handed to you by Mr. Wilkins.

Mr. **Noble**. I don't remember whether Mr. Wilkins handed it to me or Mr. Monks handed it to me.

Senator **Rudman**. It's really not important. When it was handed to you, was there any doubt in your mind as to the authenticity of it?

Mr. **Noble**. Only when I asked Mr. Monks if Mr. Carter had seen the letter and he said "No, he has not." I said, "Has he read the letter?" He said, "Well, I don't remember exactly, but I think he understands what we're talking about."

I talked to Mr. Carter and I did not know whether or not he'd ever had that read to him beforehand or not, but in any event, I felt like the three of them in general were in agreement on it. I had no question of that. I just felt that on something as serious as this I would have wanted to have made sure that the person knew what was being said in that letter.

That's my only point. I have every reason to think that they all concurred with the contents of the letter in general.

Senator **Rudman**. You gave a copy of this to Mr. Schroeder?

Mr. **Noble**. No, I did not. It was not signed, I didn't feel an unsigned letter was—if somebody puts their signature on it, I would have put it in the file.

But I don't believe that an unsigned letter is correct to put it in a file. I don't know why a person doesn't sign a letter if they write it. That offended me, that the person didn't sign the letter that wrote it.

Senator **Rudman**. But you had no question who wrote it?

Mr. **Noble**. No, because two of them handed it to me.

Senator **Rudman**. And that did not affect whether they signed it or didn't sign it——

Mr. **Noble**. It offends me when somebody does not sign a letter, and particularly when it concerns very serious charges.

Senator **Rudman**. That's a whole separate issue. If you're offended by it, I respect your right to be offended by it, but that's not my question. My question is simply, Mr. Noble, was there any question in your mind since it was handed to you by Mr. Wilkins and/or Mr. Monks, that this at least represented their opinion as two members of the Board?

Mr. **Noble**. That is correct, and I have addressed it.

Senator RUDMAN. I don't question what you've done after it, I'm trying to contrast your view about that memorandum with Mr. Schroeder's.

I might point out to both of you that it is very common practice around this place to have correspondence back and forth that is initialed or typed initialed without having a full signature, and I can assure you, when I get something from the majority leader that has got H.B. on it, it doesn't make too much difference to me whether I've got his John Hancock or not.

It has the same effect on me, I can assure you.

Mr. NOBLE. But it usually has his initials on it.

Senator RUDMAN. Typed or otherwise, Mr. Chairman.

Senator COHEN. We're nearing the hour of 1 o'clock. We're going to terminate this morning's session. Just one question, Mr. Bowden, are you a normal subscriber to the Bangor Daily News?

Mr. BOWDEN. No, sir, I'm not.

Senator COHEN. How did you happen to get a copy of that story?

Mr. BOWDEN. That came to me from our press relations office.

Senator COHEN. They were told to monitor any statements that we made?

Mr. BOWDEN. I have no idea how it got to them, sir.

Senator COHEN. I'm sure the Bangor Daily News will be pleased to hear that you're reading their material.

Mr. BOWDEN. We get some very strange records, but in general we do monitor Maine newspapers because there's a proposed project in Maine, and the normal practice is to have a clipping service provide most of this information for us in the areas that we do have projects.

Senator COHEN. So you've had a clipping service from the Bangor Daily News?

Mr. BOWDEN. I'm sorry. I could not answer that question directly. Perhaps we have someone who could. Our clipping service is a contract clipping service. It clips from several different areas.

Mr. NOBLE. I think they try to pick up anything concerning synthetic fuels, so I don't think it was any surreptitious——

Senator COHEN. I wish we had as good an operation where we could monitor things that are said about us in other parts of the country.

Mr. BOWDEN. That's how I found out the answer to Senator Rudman's question. I don't know where he got his information, but my direct response was to his direct question.

Senator RUDMAN. Mr. Chairman, I'd just like to say to these gentlemen who are obviously new in Government—I don't say that critically, I come from the private sector myself—but I think you have displayed an unusually high level of paranoia, if I might use that word, in preparing for these hearings.

You need only come before the Congress and give us your frank opinions, disagree with us, if you will, and tell us the simple truth, which I expect you have all done here this morning.

I am a believer in the old saying that just because someone's paranoid doesn't mean somebody isn't really out to get them, but the fact of the matter is that we're interested in $17 billion worth of Federal money. The chairman has a very serious responsibility on the subcommittee to have oversight of Government. I don't think anyone at the table sitting in front of us would disagree that there has been at least the perception that all is not well amongst the management and Board of the Synthetic Fuels Corporation.

That concerns us and it will continue to concern us.

Mr. **Noble**. Senator, I appreciate your concern, and I told Senator Cohen when I met him the first time that we welcome constructive criticisms. We know we've made mistakes, no question about it. We realize we've got some strong Directors, we realize there's some difference of opinion, but basically I think we've done a good job.

And as I said earlier in my testimony, I don't know how many entities or how many agencies that you question, whether they're good management or bad, that have operated on the small percentage of their authorized budget that we have. And maybe we should have had more people on here, I don't know, but I think on balance that we've done a pretty good job, and we're trying to do the job that's in front of us and trying to ameliorate some of the differences on the Board. But it's been difficult, and I hope I'll have their cooperation after this hearing to continue it.

Senator **Cohen**. Thank you very much, Mr. Noble. We're going to stand in recess until 2 o'clock.

[The prepared statements of Mr. Noble (with attachments) and Mr. Schroeder follow:]

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TESTIMONY OF EDWARD E. NOBLE, CHAIRMAN
U.S. SYNTHETIC FUELS CORPORATION
BEFORE THE
SENATE COMMITTEE ON GOVERNMENT AFFAIRS
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT
JULY 27, 1983

Mr. Chairman, Members of the Subcommittee: I am pleased to have this opportunity to review for you the organization and progress of the U.S. Synthetic Fuels Corporation. All of us, directors and staff, are keenly aware of the Corporation's unique status as a federal entity free of much cumbersome regulation, yet at the same time fully open to public scrutiny and responsible to the Congress.

When I became Chairman in May 1981, I inherited a somewhat suspect concept of commercial synthetic fuels development and an implementing law that was untested in the real world. Moreover, the Corporation had been virtually directionless since its inception ten months earlier; and the small staff, while dedicated and highly competent, was demoralized and dubious about the future. Additional difficulties arose from the need to immediately address and resolve a number of important questions raised by members of Congress concerning activities and procedures that had occurred at the Corporation before my tenure. And all of these problems were compounded by the Corporation's continuing lack of a quorum of directors to conduct its business.

Our first efforts, during the summer of 1981, were directed at developing appropriate responses and remedies to the many early questions raised by Congress, for decision when we did have a Board of Directors. Many of these questions concerned administrative and procedural matters, and I hired a new Vice President for Administration. I directed the Projects staff specifically to begin developing procedures for soliciting projects and criteria for evaluating proposals in a fair and equitable manner. I asked the General Counsel's office to review and provide opinions on a number of important matters, with particular concentration on the question of the legality of the initial solicitation, which had been raised by an oversight committee of the House. While the solicitation had been conducted by the previous, interim Board of Directors, I still believed its legitimacy was crucial; it could have affected both the credibility of the Corporation and the confidence of industry in pursuing a cooperative effort with a federal entity. Sixty-three projects were involved, many with major industry sponsors who would be vital to any serious development program.

In addition to all of the above "in-house" problems, if I might so characterize them, the Corporation was also confronted with certain external events which were to have substantial impact on our program and progress. By the summer of 1981 the effects of the steep oil price increases of 1980, coupled with President Reagan's full decontrol of domestic oil prices, were starting to be felt in world oil markets. Previous assumptions about growing consumption and steadily rising prices were beginning to be questioned. United States average daily oil imports for 1981 were in the process of falling about 15 percent below 1980 levels; domestic exploration and drilling was booming; and natural gas was increasingly plentiful. It was also becoming clear that our highly inflationary economy of 1979 and 1980 was likely to cool significantly.

Within this context our Board of Directors took up their duties in the fall of 1981. And I might note here parenthetically that we were only a five-member Board, sufficient to constitute a quorum and conduct business, but not actually complete as a Board until almost a year later, when our final two members were confirmed by the Senate in August, 1982. At our first meeting, the Board considered primarily administrative and project matters. Among the administrative actions taken were adoption of a structure of organization, including committees of the Board, and the authorization of an operating budget for fiscal year 1982. We also adopted an open meeting policy, interim guidelines for disclosure and confidentiality, and procedures governing consultants and contracts. Several of these actions responded directly to concerns expressed by Congressional committees.

On the Projects side, the Board immediately considered the question of the legality of the initial solicitation. As a result of the findings of our General Counsel and on the recommendation of the Projects staff, the Board determined to issue a supplement to the initial solicitation, which would address the concerns raised. The Board also approved and incorporated into the solicitation documents definitive criteria for the evaluation of projects. We further considered and resolved to issue a series of solicitations for projects, to proceed on a clearly defined time schedule (appended to my testimony) and to progress from the general to the specific (targeted).

> RESOLVED, that it is also the present intention of the Board, . . . to issue up to three subsequent general solicitations closing at six month intervals . . . [and]
>
> RESOLVED, that the Board also intends the staff to examine additional solicitation approaches such as issuing, on a predetermined schedule, one or more specific solicitations directed at particular types of resources, products or technologies.[1]

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[1] Board of Directors meeting, agenda item X.A.(1), October 28, 1981.

The schedule for issuing solicitations, and the progression from general to targeted solicitations have been followed closely. Awards, however, have lagged somewhat behind this schedule because of limitations on project maturity and strength.

Once the Board had established project solicitation and evaluation procedures, the directors turned their attention to a definition of programmatic objectives, in compliance with the Energy Security Act. In the first instance, this required interpretation of certain ambiguities and reconciliation of conflicts in the Act. Principal among these was the apparent contradiction between the Act's production goal, involving concepts of maximum production and lowest unit cost, and the corresponding objective of diversity, emphasizing replication potential and applying to resources and technology. Under the direction of a senior staff Task Force, and employing a matrix approach, staff began addressing this and related questions as part of a larger programmatic definition and strategy proposal for the Board. The Board received its first report from this group at its January 18, 1982 meeting, and made its first programmatic decision, relating to the correlation of the production and diversity goals, in February 1982.[1]

From this point, the Board and staff engaged in an open and progressive process of program definition. Programmatic development reports were given regularly at each Board meeting, and the task force staff worked to incorporate project experience, as it developed, into the programmatic work. An important milestone was reached at the July 15, 1982 meeting when the Board acted to identify certain priority resource bases and to estimate dollar amounts for their development. The priority resources were coal, oil shale, and tar sands, and amounts earmarked for the development of each were $6 billion, $3 billion, and $1 billion, respectively.

This July meeting offers a clear example of the interaction of the Corporation's project and programmatic work. In a series of related moves, the Board simplified procedures governing project evaluations in an effort to speed up the award process, defined programmatic priorities for competing resource bases, and publicly announced its desire for qualified and substantial concerns to participate in developing a synfuels industry. In short, the Board said what it wanted (priority resources), how to get it (dollar earmarkings and simplified process), and from whom (major industry sponsors).

Further, the Board incorporated all of this thinking into the third general solicitation, which was tentatively approved and referred to the Advisory Committee. When this solicitation was formally issued in August, 1982, it carried notice of the Board's "present intention" that the third solicitation be "the last solicitation which solicits projects generally." Henceforth, the Board would pursue "other methods authorized under the Energy Security Act by which proposals may be submitted, evaluated and negotiated."[1] That is, the Board would begin to target solicitations to meet specific programmatic objectives, as defined at its preceding meeting.

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[1] Board of Directors meeting, agenda item VII, February 16, 1982.

By the fall of 1982, project experience and programmatic work were well integrated. The Board continued to focus principally on project solicitation and negotiation strategies at its October and December meetings, and in January 1983 this work culminated in a number of related Board actions:

1. A solicitation targeted to western oil shale projects -- which the Board had identified in July as being essential to its program, but absent under the second solicitation -- was formally issued.
2. The Board revised the previously earmarked amounts upward, reflecting increased understanding of the real costs of developing the priority resources. The new amounts were set at $7.0 billion for coal, $4.8 billion for shale, and $1.4 billion for tar sands, and it was anticipated that up to a dozen awards, to a total of $13.2 billion, would be made in the Phase I period.
3. Reflecting the revised dollar amounts for developing the priority resources, the Board approved programmatic budgets for fiscal years 1983 and 1984 of $6.0 billion and $7.2 billion, respectively.

During this same period the Board also increased its focus on the comprehensive strategy, which in many respects would build from the base of programmatic work. General discussions in October and December, 1982 led to staff briefings of individual Board members in January and February of 1983 and to further public Board presentations in March, May, and June, 1983.

At its June 30, 1983 meeting, the Board further specified its solicitation and negotiation strategies when it authorized staff to establish procedures which, if the necessary findings and reports to Congress were made, would permit direct negotiations as soon as possible. Specifically, the Board determined that it would:

1. Follow strictly the third solicitation guidelines requiring all successful projects to have reached agreements in principle with the Corporation by September 15, 1983;

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[1] Board of Directors meeting, agenda item VIII, August 19, 1982.

2. Evaluate whether the necessary findings should be made for the required report to Congress concerning negotiations for one or more diverse shale projects, should the Board's programmatic slate for shale be incomplete after September 1983;

3. Initiate similar procedures for Gulf Coast lignite projects, should the present targeted solicitation fail to produce a sufficient response; and

4. Supplement the solicitation targeted to eastern and midwestern bituminous coal gasification projects to allow an early response to determine if the solicitation is likely to attract a sufficient number of qualified proposers, or if direct negotiations will likely be necessary.

To summarize, then, the Corporation has followed closely the sequence of solicitation procedures set forth in the Energy Security Act and authorized by the Board of Directors at its first meeting. We have moved deliberately from general to targeted solicitations and are now beginning a process to determine if findings should be made that would allow the Corporation to move to direct negotiations as prescribed in the Act. Programmatic development has been an ongoing effort, periodically and specifically defined and further directed by resolutions of the Board of Directors, particularly at Board meetings in February, July, and August, 1982 and January and June, 1983.

* * * * *

The Board has encountered a number and variety of difficulties in fulfilling its duties, some common to any start-up effort and some specific to our statutory purpose, but I suspect few unfamiliar to members of Congress. Our problems range from economic uncertainties and conflicting constituent interests to differing philosophies and the occasional clash of strong personalities.

As a new entity with a unique purpose, little experience to draw upon, and a large amount of money to put at risk, the Corporation found itself in a challenging and often challenged position. Along with my fellow Board members, I was determined to put together a program that responded positively and responsibly to the mandate of Congress. Admittedly, this would have been easier with rising oil prices, a tight energy market, and an inflationary economy. But I can say without hesitation, for the overall good of our country, I am very glad none of these conditions continued to prevail from 1981 to the present. Still, one small price we pay for current oil price relief is that our job of getting a synfuels industry started is much more difficult.

Today, capital is short, oil price forecasts are no longer bullish, and industry executives have difficulty justifying multi-million to multi-billion dollar long-term investments in synthetic fuels to their own boards of directors. Balance sheets for the short term and share holder dividends are large obstacles to any executive decision to invest in a synthetic fuels project.

A further complication arises from the sheer magnitude of commercial synthetic fuels plants -- that is, plants scaled to an initial production of 7,500 - 15,000 barrels of oil equivalent per day. Such a project requires an enormous investment, not only in terms of capital, but equally in terms of engineering and management capability. In fact, we are in many cases finding that adequate management is actually the hardest challenge for many potential sponsors to meet. The entire process takes time: to assemble the capital, to develop the design sufficiently to provide reliable cost estimates, and especially to insure capable management which is ultimately the key to any successful project.

Our staff has worked with all responsible potential sponsors to assist them in bringing projects to an acceptable level of maturity in all aspects. This includes technological and management competence, equity formation, environmental compliance, and community impact mitigation. Within and among these various aspects, a number of often competing interests must be recognized and reconciled. I might add here in all humility that both those of us at the Corporation and our counterparts in industry have been in an intense learning posture.

At the Corporation, we hold a public trust and must do our job as responsibly as possible; yet we must also avoid unnecessary regulation or intrusion in the marketplace, which would run-up project costs and dampen private sector commitment. We walk a narrow line between Corporation support and federal direction. We must at all times appreciate equally the profit motive of industry and the general well-being of the country.

Our "problems" at the Board level, I believe, have stemmed largely from this ever present need to balance value against value, and to make the right judgement as often as humanly possible. Also, to the degree that this particular Board of Directors are all men of exemplary character and accomplishment, we have experienced some frustration in not having succeeded as fully or as quickly as we would have liked. But we have made very measurable progress, in a time not conducive to progress in synthetic fuels.

Tomorrow the Board is expected to finalize our first award of financial assistance. We have executed an agreement for 131(u) monies with another project, and final award documentation work is proceeding for two more projects. We are negotiating term sheets with seven major projects, and we hope to have agreements in principle with at least some of these by the September 15 deadline in the third solicitation, which I discussed earlier in this testimony.

This Board will not put any monies at risk unnecessarily or irresponsibly. But we are, individually and as a Board, fully and absolutely committed to providing the country with a synthetic fuels capability in the national interest.

* * * *

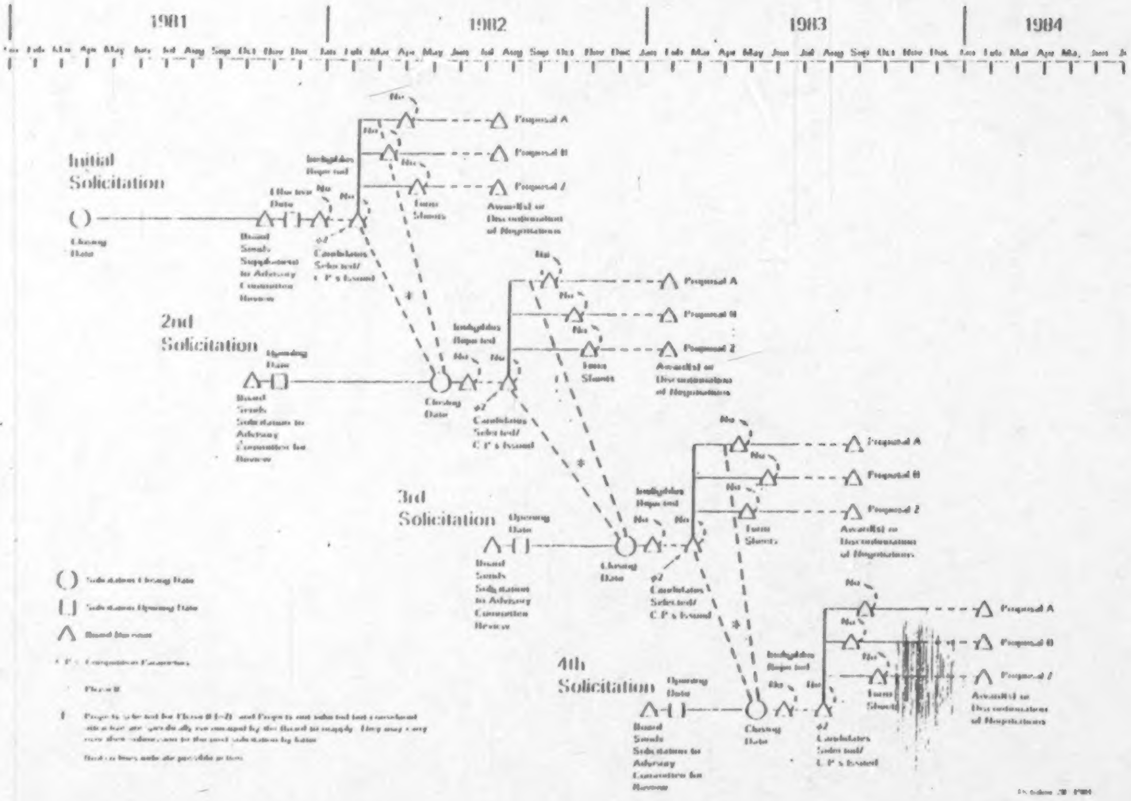
In the area of conflicts of interest and ethics, under the guidance of the Board of Directors, management has set in place a comprehensive Policy on Standards of Conduct. The policy implements the conflict of interest provisions of the Energy Security Act and establishes a code of conduct for all Corporation personnel very similar to that applied by the agencies of the federal government. Appended to my testimony is a statement describing this program, prepared by Owen Malone of our legal staff who serves as the Corporation's Ethics Officer. Mr. Malone is available to discuss the program with the Subcommittee.

Concerning possible amendments to the Energy Security Act, we anticipate that the Board may make recommendations in the comprehensive strategy it submits to Congress. At this time I feel it would be premature and presumptuous of the Board's prerogatives for me to offer any amendment proposals. But with respect specifically to recommendations for improving the operations of the Board, I would say that at least a few of us experienced in the private sector have felt somewhat constrained at times operating so fully under the open meeting provisions of the Energy Security Act. Still, we recognize the importance in terms of public accountability and have been scrupulous in our compliance. Moreover, I believe that effective cooperation between individual Board members is primarily a matter of goodwill and appreciation of differing talents among individuals, attitudes which clearly cannot be legislated. I might also add that in my personal opinion every member of this Board has made a real and valuable contribution to the progress and success of the Corporation.

I am proud of the directors and staff of the Synthetic Fuels Corporation and of the fine work we have done together. In the past two years we have had our share of difficulties and differences of opinion, but I believe we all agree that synthetic fuels, as defined in the Energy Security Act of 1980, will figure significantly in the energy future of this country. Precisely how, when, at what cost, and with what degree of federal intervention are all as yet unknowns. While today I feel more confident and better able to address the problems confronting the Corporation than I did two years ago, I also acknowledge that we still have much to learn. We welcome constructive assistance and are always open to new and better ideas for the stimulation of a synthetic fuels industry.

I thank you, gentlemen, for your time and interest. I'll be glad to try and answer your questions.

SOLICITATION PROCEDURES


1981
1982
1983
1984
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec
Initial Solicitation
Closing Date
Board Sends Supplement to Advisory Committee Review
Opening Date
No
#2 Candidates Selected/ C.P.'s Issued
Ineligibles Rejected
Proposal A
Proposal B
Proposal Z
Term Sheets
Award(s) or Discontinuation of Negotiations
2nd Solicitation
Board Sends Solicitations to Advisory Committee for Review
3rd Solicitation
4th Solicitation
*
Solicitation Closing Date
Solicitation Opening Date
Board Decision

U. S. Synthetic Fuels Corporation Ethics Program

Standards of Conduct/Conflicts of Interest

The Subcommittee has also asked that the Corporation's presentation to the Subcommittee address the procedures the Corporation has developed to identify and resolve conflict of interest problems. This addendum describes the statutory provisions regarding conflicts of interest that apply to the Corporation and the policy adopted by the Board of Directors to implement such provisions and to prescribe standards of conduct for Corporation personnel.

The Corporation's statutory requirements respecting conflicts of interest are set out in section 118 of the Energy Security Act. Under section 118(a) the financial disclosure provisions of the Ethics in Government Act of 1978 that apply to federal officials occupying positions compensated under the Executive Schedule also apply to the Directors and officers of the Corporation and to employees who are compensated at or above the rate payable for grade GS-16 of the General Schedule ($56,945).

Section 118 also includes a provision addressing conflicts of interest involving Directors of the Corporation. Under section 118(c), a member of the Corporation's Board of Directors is prohibited from voting on any matter before the Corporation in which, to his knowledge, he, or his spouse, minor child or partner, or any organization in which he holds an office or position, or with which he has an employment arrangement, has a financial interest. The prohibition does not apply if the Director discloses the financial interest, and the Board determines by majority vote that the interest is too remote or too inconsequential to affect the integrity of the Director's service in the particular matter involved.

Finally, under section 118(d) former Directors, officers and employees of the Corporation are subject to the same post-employment restriction that applies to all former federal officers and employees under section 207(a) of title 18 of the United States Code. As is the case with former federal agency personnel, after leaving the Corporation a former Director, officer and employee is prohibited permanently from representing anyone before the Corporation, other than the United States, regarding a matter in which he or she participated personally and substantially while with the Corporation. The same standard applies throughout the Executive Branch.

These statutory provisions have been implemented as part of the Corporation's Policy on Standards of Conduct, a copy of which has been made available to the Subcommittee. The Corporation's policy was set in place by the Board of Directors on an interim basis on February 16, 1982, and was published in the Federal Register for public comment on May 18, 1982. The provisions implementing section 118(a) (relating to public financial disclosure) and section 118(d) (relating to the post-employment restriction) were approved by the Office of Government Ethics on June 11, 1982. The policy was finally approved by the Board of Directors on June 17, 1982.

In addition to implementing the financial disclosure and other provisions of the Energy Security Act, the Corporation's policy also includes a financial disclosure requirement for employees whose responsibilities involve the evaluation of projects, project negotiations, and procurement matters. This requirement applies to employees who are not covered by the disclosure provisions of the Ethics Act and whose salaries are at or above the level payable for GS-13 of the General Schedule ($34,930). The policy also establishes standards of conduct for all personnel that reflect the same ethical standards that apply to officers and employees throughout the Executive Branch. The provisions relating to employee conduct (e.g., gifts, gratuities, entertainment, favors, outside employment and other outside activity), and those relating to restrictions based on the financial interests and previous employment of personnel are all patterned on comparable employee conduct regulations issued by the Department of Energy and other federal agencies.

The Standards of Conduct policy is administered by its Ethics Officer, a senior attorney in the Corporation's Legal Services Group designated by the Chairman. Under the policy, the Ethics Officer maintains a list of the Corporations and other business entities that have undertaken or formally propose to undertake projects involving the Corporation. The list includes the project sponsors and other participants with material interests in the project such as investment bankers, financial institutions, and major contractors. The list is updated periodically and distributed to all personnel and is the Corporation's key device for identifying conflict of interest situations. All Corporation personnel are prohibited from acquiring any financial interest in, holding employment with, or accepting anything of monetary value from any such organization. Under the policy, and as required by the Ethics Act, all financial disclosure reports filed by new entrants and incumbents are reviewed by the Ethics Officer to insure compliance with the Energy Security Act and the Corporation's policy. If a member of the staff reports a financial interest in any organization having an interest in a project before the Corporation the Ethics Officer so advises the individual and the Vice President in charge of his assignment and steps are taken to resolve the conflict. As appropriate, the steps available include arranging work assignments to guard against the employee having any involvement with a matter that would involve a conflict of interest, divesture of the interest, recusal by the employee, and exemption from the restriction in instances where the Ethics Officer, with the approval of the Chairman, determines that the particular interest is too remote or too inconsequential to affect the integrity of the services of the employee.

Again, Mr. Chairman, the Corporation's policy and procedures in this area are modeled very closely on those applied by the federal departments and agencies throughout the Executive Branch. The Corporation is, and has been, highly conscious of the need for the highest standards of ethical conduct and the avoidance of conflicts of interest in relation to its program. Such matters receive close and continuing attention in the day-to-day operations of the Corporation.

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TESTIMONY OF VICTOR A. SCHROEDER, VICE CHAIRMAN AND PRESIDENT
U.S. SYNTHETIC FUELS CORPORATION
BEFORE THE
SENATE COMMITTEE ON GOVERNMENT AFFAIRS
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT
JULY 27, 1983

Mr. Chairman, Members of the Subcommittee: I have prepared my written testimony to be as responsive as possible to the questions noted in your letter of July 7, 1983. I recognize the importance of Congressional oversight concerning the use of public funds and intend this opportunity to review the way in which we have approached the management of a new organization striving to carry out an unprecedented mission.

This morning I would just like to mention a few key points that seem particularly important in the context of this hearing. But before beginning, I would like to commend the Subcommittee staff on the highly professional manner in which they have conducted themselves at the Corporation.

The practices and procedures we have established and implemented at the U.S. Synthetic Fuels Corporation reflect a conscientious and determined effort on the part of myself and others to draw from the federal and the private sectors the best management elements in each, in order to accomplish a mission which I am convinced is of lasting long-term importance to the country. I have always been keenly aware of the Corporation's unique status as a federal entity which is intended to operate largely in a private sector mode. As a result of our experience, I believe we can indeed provide constructive information to this subcommittee and others which seek to promote more efficient operating methods and practices in government institutions.

When I first came to the Corporation in the Spring of 1981, there was little organization and many problems. Chairman Noble has discussed these in his testimony, and so I will not repeat them in mine. Suffice it to say, as one who had always worked in private industry where one hires quality people, delegates authority, and demands accountability, I recognized immediately that the Corporation's first need was for management at the top. The small staff in place was intelligent and diligent, but they were totally without direction. I immediately commenced to provide a system of organization to fix responsibility and promote efficiency.

Under the Energy Security Act only the Board of Directors can establish a formal organization for the Corporation, and there was to be no functioning Board for another six months. But in the spring and summer of 1981 Chairman Noble and I did address at length questions concerning the best organization structure for the Corporation, and its immediate staffing requirements. We both realized that a formidable task lay ahead. Ed Noble asked me to serve as President of the Corporation, subject to Board approval. In this role I would function as his principal assistant and advisor on all policy matters. This would encompass the development as well as the implementation of policy, and it would also include overall responsibility for the effective dissemination of policy information.

In addition to my policy role in support of the Chairman, as President I was to hold full responsibility for the operations of the Corporation. Each vice president would report to me; my job would be to assure that each unit was performing properly, and also that all units were functioning in an integrated and supportive manner.

Clearly, the position of President with its dual responsibilities for policy and operations was a very heavy charge. I knew I would need some very capable back-up fairly early in the process and decided this could be best provided by an executive vice president, who would hold responsibility for the day-to-day operations of the Corporation, under my overall direction. In September 1982 Mr. Jimmie R. Bowden became the Corporation's Executive Vice President, and in October 1982, by written memorandum, I delegated to him extensive authorities, powers, and duties.

I chose a matrix structure of organization for the Corporation because of its unique mission. Our primary job was the awarding of financial assistance to synthetic fuels projects which, in the judgment of the Board, would further the purposes of the Energy Security Act: that is, speed up the development of a commercial synthetic fuels industry in the United States. The Board must make the final judgment on an award, but to make that judgment responsibly, directors would need a tremendous amount and variety of information that would include technological, financial, management, marketing, environmental, programmatic, and legal aspects of every project under consideration. These component elements would have to be known and assessed, so that strengths and weaknesses in each area could be balanced against each other, before the Board could render an informed decision. Matrix organization would provide staff integration and allow this kind of sophisticated analysis to be done on a routine basis.

Appropriately, the matrix system was first fully implemented in the Projects area. I worked especially closely with the Senior Vice President for Projects to put together a number of Project Teams. Each Team consists of a Team leader and three or more additional members drawn from the different disciplines within the Corporation. Thus, individual staff members are assigned duties both within and across functional lines. While ultimately responsible to his/her own vice president, staff members work in a cooperative fashion outside of their immediate unit to further the overall work of the Corporation. Such an approach allows individual talents to be more fully utilized and at the same time contributes to a sense of unity and common purpose within the Corporation as a whole.

A Team is assigned to each project proposed to the Corporation, and that Team works with that project until the Board makes a final decision. While an individual Team member may change, or a Team's size may alter according to its workload, overall Team continuity is maintained, and this permits the Board to receive more complete and consistent analysis.

A matrix approach has also been used in the Corporation's programmatic work. Late in 1981 a senior staff Task Force, composed primarily of the vice presidents and chaired by me, was established, along with a working group at the staff level. This Task Force was analogous on the programmatic side to the Teams we had set up in the Projects area. The first issue addressed by the Task Force was the reconciliation of the production goal requirements and the diversity objectives set out in the Energy Security Act. This effort was intense, and we spent many long, hard hours grappling with the various interpretations and possibilities one could derive from readings of the Act and its legislative history. The Board was given periodic reports on the progress of this work and in July and August, 1982, adopted specific programmatic policies and a third general solicitation based on recommendations of the Task Force.

Our programmatic work has always been evolutionary in nature and has incorporated project experience as it proceeded. For instance, as a result of experience with the first and second solicitations, we were beginning to get some response from industry concerning our solicitation and evaluation procedures, but this information was fragmentary. So in the spring of 1982 I asked our director of industry relations, along with a few others, to conduct a planned industry survey.

Basically, this survey indicated that potential sponsors were looking for greater flexibility in process and a fuller statement of intention from the Corporation. At the same time the Board was beginning to identify its programmatic objectives in terms of preferred resources and dollar estimates for their development. These efforts came together in the Corporation's third solicitation, issued August 19, 1982 which:

1) Was limited to the preferred resource bases of coal, oil shale, and tar sands/heavy oil;

2) Carried notice that "it is the present intention of the Board of Directors at this time that the third solicitation be the last solicitation which solicits projects generally . . . ."

3) Allowed a project to begin preliminary financial award discussions as soon as it was judged mature and had a substantial equity partner committed.

In addition, I directed staff to make every effort to be as definitive and responsive as possible to project sponsors during negotiating, debriefing, and other sessions.

The Task Force approach was continued into the fall of 1982 as new issues arose. By this time staff had become fully accustomed to the matrix approach, and so some of its more structured aspects could be eliminated, particularly in terms of regularly scheduled meetings. Rather, small groups of two or three could meet informally and then reach out to others as necessary. Task Force membership became both more inclusive and less specific as the concept was extended to a number of major policy issues that needed addressing. Task Force efforts in the fall of 1982 turned to the development of targeted solicitations and to the Corporation's outreach initiative. Both of these efforts grew out of Board decisions in the summer of 1982; and each was a major undertaking that required close management supervision.

In January 1983 the Corporation issued its first targeted solicitation, for western oil shale projects. In April we issued a second, for Gulf Coast lignite gasification projects; and in June we issued a solicitation for eastern and midwestern bituminous coal gasification projects.

With respect to the outreach initiative, we have held three large sessions with the full Board of Directors and senior executives from major energy, chemical, construction, banking and investment companies. These briefings have taken place in Houston, New York City, and Tulsa. In addition to these large sessions, individual Board members and senior management in the Corporation, principally myself, the Executive Vice President, Senior Vice President for Projects, and Vice Presidents for Finance and for Technology and Engineering, have met variously with major industry representatives concerning their possible participation in one or more synthetic fuels projects.

Finally, relative to the Corporation's second major area of responsibility -- development of a comprehensive strategy for submission to Congress -- we are also employing the matrix approach. The Policy Development Group is, in effect, the "team lead" for developing options and recommendations for consideration by the Board.

Since last fall the Policy Development Group has been working on a schedule and parameters for the strategy, and increasingly in recent months staff from other groups, notably Technology and Engineering, Projects, Finance and Legal Services, have been involved in the development process and early work products. Such cooperation will intensify as the actual work of strategy development grows during the next year.

The recommended comprehensive strategy, and Congress' response to its submission, will determine the overall plans and organization for the Corporation after 1984. In any case, the project awards made this year and next will require some modest ongoing financial monitoring.

To summarize, then, my duties as Vice Chairman and President are twofold, covering both policy and operations. I have overall responsibility for the operations of the Corporation, and in this I have been aided immeasurably by the full support and assistance of the Executive Vice President. We work together closely and are proud that today the Corporation enjoys good cooperation from industry and substantial support in Congress. Since the May 1983 Board meeting, the Executive Vice President has taken over the chief operating officer duties for a period of 90 days. At the end of this period, the Board will re-evaluate this arrangement.

The Corporation has issued six competitive solicitations to date, has evaluated well over 100 individual project proposals, and anticipates issuing its first assistance awards within the next few months. In fact, finalization of our initial award is one item on the Board's agenda for tomorrow's meeting.

On the policy side my duties include support of the Chairman in the decision-making process, implementation of all decisions made by him or the Board of Directors, and the public communication of policy as appropriate. In fulfilling these responsibilities I have worked closely with our Vice President for External Relations, and I have been particularly available to members of Congress who wish to discuss the status and progress of the Corporation. I believe these one-on-one sessions are highly beneficial in furthering understanding of the Corporation's work. During the past few months I have devoted much more of my time to meeting with members of Congress, and I expect this to intensify in the months ahead as financial awards and project monitoring activities increase.

* * * *

Because a detailed accounting of administrative expenses has been given at the staff level, I will limit myself here to a few specifics which I hope will be helpful. The Corporation is authorized to incur annual administrative expenses to a total of $35 million, adjusted for inflation, and drawn from our initial appropriation. It should be noted, however, that we estimate that, at the end of fiscal year 1983, we will have actually used only about 24% of the total accumulated administrative expenses authorized for the first three years. We are also authorized up to $10 million each year for generic studies, but expect to have used less than 10% of these funds by the end of this fiscal year. On the operations side, we are not required to seek annual appropriations, but the Energy Security Act does require the Corporation to submit an operating budget to Congress each year. Appropriations committees of both Houses have held hearings each year, and the Corporation's budget and project activities are regularly examined by those committees with jurisdiction.

We believe that the administrative budget is an important management tool, and our vice presidents follow its progress closely. In addition to internal monthly reports which compare actual expenses against projections, we also fully review each fiscal year budget before adoption and review it again at the mid-point of the fiscal year. In this way we assure that the budget is an accurate reflection of the Corporation and of any changes in our program.

* * * *

The Energy Security Act designed the Corporation to have a limited life and a small staff, imposing a time limit of 1997 and a staffing limit of 300 full-time professional employees. We were also, however, given the benefit of less cumbersome employment procedures and authority to pay salaries above the Federal Executive Schedule, subject to Presidential approval. While the staff size limit has proved no handicap for management, we do find that the time constraints for accomplishing our mission necessitate our hiring well-experienced people, many at the middle point in their careers. We have also found, as a practical matter, that it is very difficult to attempt to exceed Level I pay rates, though we are authorized to do this.

Subject to this general limit, the Corporation, based on accepted personnel practices, analyzes the tasks each officer is expected to perform and reviews each officer's performance on an annual basis. Candidates for officer positions are located through industry references, executive search services and promotion from within the Corporation, as appropriate. The Compensation Committee reviews management recommendations on these matters, and the Board has the final power of decision.

Yet without exceeding Federal pay levels, we often find it extremely difficult to attract the best qualified individuals at the senior management level. We are talking about a professional person, at the mid-point in his/her career, and we are asking that person to consider a position where the salary potential is limited, the perquisites (stock options, bonuses, club memberships, special insurance, etc.) non-existent, and the future at best questionable.

Despite these limitations, I can say sincerely that I believe we have a staff of the highest professional competence and personal commitment at the Corporation. I attribute this solely to the integrity and skill of a great number of very fine individuals, and I admit to getting impatient and angry when people outside fail to realize the opportunities so many of our people have passed up in order to work in a national effort to develop synthetic fuels, which they believe to be very important.

Concerning the benefits which the Corporation does provide employees, these include health and insurance programs and a retirement and incentive savings plans. In devising the Corporation's benefits package, we did not follow the Federal approach, because the Board felt it was both inappropriate and too costly. Further, as a non-permanent organization in which many people would serve for only a few years, the Corporation had some special needs to consider. After analysis of consultant recommendations, the Board adopted a benefits package with total costs equivalent to those typically experienced in the private sector, and substantially less than those of the Federal government. Our combined savings and retirement plans cost the Corporation an amount equal to about 10% of our payroll, whereas the Federal government retirement system costs the public an amount equal to about 30% of payroll.

Our personnel procedures and practices are less bureaucratic than those found in the Federal government, and are similar in most respects to those found in other public corporations and private industry. We do, however, place more emphasis on competition in recruitment than is typical of the private sector, particularly for middle and lower level positions.

The Corporation has a written policy governing travel authorization and cost reimbursement practices. This policy draws upon experience of both private and public organizations and essentially provides for reimbursement for actual expenses for official business, using government rates for lodging, generally requiring economy class transportation, and limiting amounts for meals. This policy applies to Directors, officers, and employees of the Corporation as well as to non-employees travelling for the benefit of the Corporation. Our policy has evolved over the life of the Corporation and we feel that it is reasonable, workable, and prudent. Any further information on this the Subcommittee may wish is available from our staff at any time.

* * * *

At its first meeting on October 28, 1981, the Board of Directors adopted and issued the "Policy and Procedures for Administration of Contracts", which succinctly sets forth basic policies and procedures for the conduct of the Corporation's procurements. In March, 1982 the Contracts Office was established in the Office of Administration and an experienced, innovative professional was recruited to fill it.

The Contracts Office initially issued a series of streamlined guidelines, procedures, and forms, which implemented the policy adopted by the Board. In early Spring, 1982, we established formal Source Evaluation Board procedures for use in competitive procurements. We believe they provide for fair, impartial, and objective evaluation and selection of contractors with a limited amount of process and overhead costs.

On November 19, 1982, the Corporation's Procurement Manual was issued. It covers such areas as roles and responsibilities, source selection, consulting agreements, competition, and contract administration. The manual takes into account the fact that, while our procurements involve the expenditure of public funds, such expenditures are not subject to most Federal procurement laws and regulations. It seeks to adopt selectively, and to adapt to our own needs, the best aspects of procurement procedures used by the private sector, while providing for the accountability required in the use of public funds. Its purpose is to provide for consistent and expeditious procurement with a minimum of administrative complexities.

Subcommittee staff and Corporation staff have already discussed our contracting process in detail, and copies of the Procurement Manual and related procedures and reports have been given to the Subcommittee. During its early shakedown period, the Corporation had some difficulties in the contracting area, but we are proud of the procurement process we have now developed and put in place. It is simple and straightforward while, at the same time, comprehensive in the safeguards it offers in a highly sensitive area.

The Corporation makes use of outside consultants to provide it with expert advice in specialized areas essential to the fulfillment of its mission, in which we cannot justify the hiring of full-time specialists. Our ability to acquire this expertise through consulting agreements has been of immense value. The requirements we have established are intended to provide management with the control necessary to assure proper and effective use of consultants.

Procedures for obtaining consulting services by contract are likewise set forth in our Procurement Manual. Further detailed guidance and procedures are provided in our "Consulting Agreement Work Kit", a copy of which has been provided your staff.

To avoid potential conflicts of interest in all areas of procurement, the Corporation now requires disclosure statements by the potential contractor, and clearance by the Corporation's Ethics Officer is required prior to placement of contracts or agreements. The Corporation has further strengthened its disclosure policy by adding the following requirements with respect to individual consultants prior to issuance of a consulting agreement:

1. The Corporate official requesting a consulting agreement, and his or her Vice President, must sign a disclosure statement as to any previous or existing business or personal relationship with the proposed consultant and any information concerning that experience which would relate to qualification for selection.

2. The proposed consultant is provided names of all Corporate Directors and Officers and the requesting official and is required to make a written statement as to any personal or business relationship he or she has or has had with such Directors and Officers and the requesting official.

Based on staff knowledge and experience in Federal government contracting, as well as on recent informal checks, we are aware of no other public corporation or government agency which has taken the precaution provided by these two requirements.

In addition, the Corporation has developed uniform provisions for use in consulting agreements covering Standards of Conduct, and we maintain several checks and balances over the process of payment for services rendered under each contract. These ensure that contract terms are met and that work has been satisfactorily performed prior to payment.

With regard to procedures the Board has developed to resolve conflicts of interest within the Corporation, I am appending a statement addressing this, prepared by the Corporation's Ethics Officer, who is available for your further questions.

* * * * *

Finally, I have been asked to evaluate the relationship among the members of the Corporation's Board. I would certainly concur in Chairman Noble's assessment that the directors are all men of proven ability and strong confidence. We have each held positions of responsibility and authority in the private sector, and we are all equally determined to bring to the Corporation that same degree of achievement and success we have gained in business. Given this shared goal, but necessarily different levels of specific knowledge and personal experience, it is perhaps inevitable that we would occasionally disagree.

I am told by those who were in Washington at the time the Energy Security Act was being debated that Congress wanted the Corporation to have a Board of Directors who represented different points of view and would be a truly deliberative body. I am pleased to report to the Subcommittee that this is precisely what you have in the Corporation's present Board.

I would like to conclude this testimony by saying that whatever differences in viewpoint and policy direction the directors may have had, or may again have in the future, as a Board we are committed to achieving the purposes set forth in the Energy Security Act and to providing another source of energy security for America in the years to come.

Thank you. I will be pleased to take your questions.

[Whereupon, at 1 p.m., the subcommittee recessed, to reconvene at 2 p.m., this same day.]

AFTERNOON SESSION

Senator COHEN. The subcommittee will come to order.

Our first witness this afternoon is Robert Coughlan from Santa Fe, N. Mex. Mr. Coughlan served as a consultant to the Synthetic Fuels Corporation.

Mr. Coughlan, as I mentioned this morning, all witnesses are being sworn. So if you would stand and raise your right hand.

[Witness sworn.]

TESTIMONY OF ROBERT E. COUGHLAN, SANTA FE, N. MEX.

Senator COHEN. Mr. Coughlan, you have submitted a prepared statement. If you'd care to summarize that, we'd be happy to hear it.

Mr. COUGHLAN. I don't have much by way of summarization. The statement itself was very short. I was a consultant to the Corporation for about 15 months. I am the author of the report that's been alluded to several times, and I'm here to respond to any questions you may have.[1]

Senator COHEN. I would yield to my colleague from New Mexico for any comments he may have.

Senator BINGAMAN. Let me just say that Mr. Coughlan is from New Mexico. We're obviously glad to have him here, and I look forward to his testimony.

Senator COHEN. Is that a case of "res ipsa loquitor" in the law that he comes from New Mexico and that "speaks for itself?"

Senator BINGAMAN. That speaks for itself. He obviously has great insights.

Senator COHEN. That's what we're hoping to find out.

Mr. Coughlan, in December of last year, 1982, Mr. Schroeder asked you to analyze the "formal and informal operating procedures and associated communication practices relating to interactions between and among the President and Chairman and other members of the Board of Directors of the Corporation."

In preparing this report, whom did you interview?

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[1] See p. 182.

Mr. COUGHLAN. I interviewed each of the Directors, inside and outside Directors. Also, Mr. Jimmie Bowden, the Executive Vice President; Mr. William Rhatican, the Vice President for external relations, Joyce Swanson, the President's administrative assistant, and Don Thibeau, the Chairman's special assistant.

Senator COHEN. As you indicated in your report, you found a unity of purpose among the Directors, insofar as the attainment of the corporation's objectives is concerned; is that correct?

Mr. COUGHLAN. That's correct.

Senator COHEN. Your report indicates that the concerns the Directors expressed to you, and I am quoting again from your report, "reflect a serious communications void at the Board level, particularly between the outside and inside Directors."

Could you tell us what concerns were voiced that led you to that conclusion?

Mr. COUGHLAN. My conclusion was also a report of what had been told me. In other words, what's in this report, except for some introductory material in the beginning and the appendices, is really a paraphrase of what was told to me. I did not interject any of my own opinions. The fact that I've stated that appeared to represent a serious communications void was, in effect, an analysis of the sum total of the comments that had been made to me. Most of those related principally to communications. Even those that had to deal with management, if you'll pardon the term in this context, were really communications problems.

Senator COHEN. In other words, when you use the word "communications," that's a nice way or another way of saying there is a serious problem about management or concerns articulated about management.

Mr. COUGHLAN. The concerns articulated about management appeared to have a great deal to do with understanding each other, relative to management. So I call those communications problems.

Senator COHEN. When you talk in terms of communications, were you talking more than just a mechanism of how information is distributed? Were you also talking about what information, the quality of the information that is circulated?

Mr. COUGHLAN. Yes, sir.

Senator COHEN. Let me go back to the three major recommendations. Let me backtrack one moment. Is it correct for me to assume that the first part of this report of yours really was a synthesis of the information that you gathered in talking to those members: Mr. Thibeau, Mr. Bowden, Mr. Rhatican, Joyce Swanson, and the Directors? You were synthesizing the comments that they offered to you during this interview process?

Mr. COUGHLAN. Yes, sir.

Senator COHEN. So what is reflected in the first part is really kind of a recapsulation of the comments that were passed on to you?

Mr. COUGHLAN. Yes, sir.

Senator COHEN. Then you move, in the second part of your report, to make some recommendations, based on that information?

Mr. COUGHLAN. That's correct.

Senator COHEN. Your report makes three major recommendations. No. 1, that a special informal meeting of the Board of Directors be convened, preferably before the January 1982 Board meeting, to address the management and communications concerns. Why before the Board meeting?

Mr. COUGHLAN. It was my assessment of the concerns of the Directors that they wanted something to be done about these concerns as soon as possible. I felt that the actions I had recommended in the appendix to be taken were actions that could very well be taken before January 20.

Senator COHEN. Was it your understanding or at least impression, that there was such an intensity of concern that it warranted that kind of immediate attention?

Mr. COUGHLAN. For the most part, yes. I wouldn't say it was unanimous among the Directors, but certainly I would say the majority.

Senator COHEN. The majority felt fairly intensely about the issue?

Mr. COUGHLAN. Yes.

Senator COHEN. Second, that a secretariat be installed within the Chairman's office. And the third major recommendation was that a communications task force be created for 90 days "to address the communications improvements that were so urgently needed."

To your knowledge, what action was taken to implement those recommendations?

Mr. COUGHLAN. The only one with which I was personally involved, to any degree at least, after this report had been submitted, was the establishment of the secretariat. That has been established, not in the Chairman's office, but in the President's office. It is my understanding that, since its establishment, several of the directors have gone out of their way to say how pleased and satisfied they are with its functioning.

Senator COHEN. Essentially, two out of the three recommendations were not acted upon, to your knowledge, namely, the 2-day informal period to try and see if they couldn't resolve some differences about the method, the mechanisms, the substance of information to be communicated?

Mr. COUGHLAN. Not to my knowledge.

Senator COHEN. The same would be true about the task force?

Mr. COUGHLAN. Not to my knowledge.

Senator COHEN. Were you ever asked by Mr. Schroeder to discuss your findings and recommendations at either a closed or open meeting of the Board of Directors?

Mr. COUGHLAN. No, sir, I was on stand-by at the January 20 meeting, but as I understand it, the meeting ran out of time.

Senator COHEN. Did you anticipate that your recommendation about an informal meeting with the Board of Directors might violate the Sunshine Act?

Mr. COUGHLAN. I knew of the possibility, which is why I recommended the alternative, which was also included in the report.

Senator COHEN. What was the alternative recommendation?

Mr. COUGHLAN. That there be several committees set up on an ad hoc basis.

Senator COHEN. As a matter of fact, you went to some lengths to indicate who should be on those committees?

Mr. COUGHLAN. Yes, sir, I think for obvious reasons.

Senator COHEN. What do you mean by "for obvious reasons?"

Mr. COUGHLAN. It was a way of accomplishing the same thing without having everybody together at once.

Senator COHEN. Basically, a division of responsibility? You've got a Congressional Unit, an Administration Unit, an Industry Unit.

Mr. COUGHLAN. That's the task force for communications. That's a different set.

Senator COHEN. Let me go back. The Executive Committee, the Policy Committee, and the Planning Committee.

Mr. COUGHLAN. Yes, sir.

Senator COHEN. Based upon that recommendation, you felt that that would reflect the objectives of the Board of Directors in trying to improve the level and the quality, as well as quantity, of information that was being exchanged?

Mr. COUGHLAN. Yes, sir.

Senator COHEN. Do you know whether that alternative recommendation was ever acted upon?

Mr. COUGHLAN. No, I do not.

Senator COHEN. You were never requested to present that to the Board of Directors in either an open or closed meeting?

Mr. COUGHLAN. No, sir.

Senator COHEN. You recommended that the Board meet to develop statements of policy to document "the resoluteness of purpose and certainty of approach of the Corporation."

Do you believe that such statements are necessary to remove or at least ameliorate the industry's doubts about the Board's commitments to a large-scale synthetic fuels project?

Mr. COUGHLAN. My appreciation or understanding of the aspects of Corporation activity that are reflected here are somewhat out of date, so I don't know what the situation is at the moment.

Senator COHEN. As of that time.

Mr. COUGHLAN. As of that time, I felt it would be very helpful if that were done.

Senator COHEN. When Congress created the Synfuels Corporation, it assumed a quasi-governmental entity, a public corporation that would be the most effective way to foster the development of a domestic synthetic fuels industry.

Do you believe that we made a mistake in creating this Corporation?

Mr. COUGHLAN. This is strictly opinion. It has nothing to do——

Senator COHEN. Beyond this report.

Mr. COUGHLAN. At the time, I certainly would have agreed with what's stated in the Energy Security Act and the Conference Committee Report.

Senator COHEN. You believe those goals that are expressed in the statute, declaration of purpose on behalf of Congress, were the correct ones at that time?

Mr. COUGHLAN. At that time. I do believe, personally and professionally, that it is essential we have a synthetic fuels option. I think at the time that was a good assessment and a good decision. It may well be that now is the time for a new look at the circumstances as to what might be the best ways in which to secure that option.

Senator COHEN. In your judgment, would private industry, acting on its own, move in that direction in the near future?

Mr. COUGHLAN. I don't pretend to be an expert on what private industry would do or would not do, but I would doubt it.

Senator COHEN. Would you recommend that the Government itself move in that direction?

Mr. COUGHLAN. I haven't thought it out in great detail. I would think that a very good way to go about it might be to take whatever steps are necessary within the Government, whether it be organizationally, incentives, or whatever, to be sure that we did have a correct handle on the technology in the processing of feedstocks, the environmental problems, and so on. Whether that would mean a continuation of the Corporation could in my opinion, be doubtful.

Senator COHEN. Would you recommend that the Government establish a pilot project dedicated to the projection of synthetic fuels?

Mr. COUGHLAN. Well, it would take more than one, but I think, initially, we should determine what is known and proved relative to the different processes, relative to the various feedstocks, determine what additional pilot plant activity is required, what might be the penalty, if we do not go to full scale. What are we risking? An assessment might be the best means of assuring the option. I don't know that that would necessarily involve continuation of the corporation.

Senator COHEN. Mr. Coughlan, one of the basic complaints, I think, that is evident in your report was the very strongly held feeling by some members of the Board of Directors that the Corporation was acting without a specific plan of operation, namely, that you have a plan which sets forth certain goals, certain timetables, assigned responsibility, assigned really so that you can have a basis for accountability. If you don't reach the goal of producing so many widgets by October or November, something's got to be changed. We've got to either change the personnel, change the plan, or change the product.

Based upon your understanding of the workings of the corporation, was such a plan in existence at the time that you conducted your study?

Mr. COUGHLAN. As I stated earlier, I was not retained to look at or make any evaluation of management, as such. It's obvious, I think, from some of the statements in the report, that several of the Directors took that position.

Senator COHEN. Do you think it is fundamentally important to have such a plan?

Mr. COUGHLAN. Yes.

Senator COHEN. What would that plan entail? If you had to draw up such a plan, what would be the components of that plan?

Mr. COUGHLAN. For almost any organization, not just particularly the SFC, I believe one must have objectives that are clearly stated, and a realistic assessment of the criteria and constraints. From those one develops a strategy. Then one gets into tactics, which would involve the actual implementation schedule, assignments, tasks, interactions, all that sort of thing. That's all fairly standard management practice.

Senator COHEN. Yet some members of the Board of Directors complained that they had no such official statement of objectives, criteria, strategy, tactics.

Mr. COUGHLAN. Some of the members of the Board did so state, yes, sir.

Senator COHEN. And you believe that is fundamental to any corporation's really operating, whether it be in the energy field or any other field?

Mr. COUGHLAN. If I had anything to do with the management; yes.

Senator COHEN. Otherwise, you raise the question, "How does one assess the performance, if you don't know what the goals are?" If you don't set objectives, if you don't set timeframes, then there is no way of measuring performance. So at the end of the year, we come back and say, well, we didn't have a very good year, but nobody seems to know why. It could be due to the drop in oil prices, as one might suggest. It could be due to a deflationary economy. It could be alleged to be disinterest on the part of the commercial energy industry. It could be a host of things. Yet since no one is accountable, no one is responsible.

Isn't that part of the problem?

Mr. COUGHLAN. That could be the case.

Senator COHEN. And that's the kind of concern that was at least articulated to you during the course of your meeting the various people involved?

Mr. COUGHLAN. Yes, several of them.

Senator COHEN. Do you think, Mr. Coughlan, it would be a good idea to have, perhaps, an independent study, whether it be an IG report or a GAO management analysis, as to what either has been done or what has to be done to make a more smooth functioning corporation? Would that be an appropriate course of action to take?

Mr. COUGHLAN. I believe it would be appropriate, so long as the focus was on the future, not the past.

Senator COHEN. In other words, as long as they from this point on determine what management has to do.

Mr. COUGHLAN. Yes, sir.

Senator COHEN. I'm going to recess for a period of about 5 minutes, Mr. Coughlan. Senator Bingaman wanted to come back and ask you a few questions. I'll catch this vote and be right back.

We will stand in recess for five minutes.

[Recess.]

Senator COHEN. The subcommitee will come to order.

Senator Bingaman.

Senator BINGAMAN. Thank you very much, Mr. Chairman. I just want to ask a couple of questions.

Mr. Coughlan, if some of this is repetitious of earlier questions, just tell me so. I apologize for having to duck out and cast that last vote.

The basic question I have is what recommendations or suggestions do you have at this stage that perhaps have not been covered in your earlier comments for improving the functioning of this Corporation.

My interest is to just see that the Synthetic Fuels Corporation, to the extent possible, does function, and actually builds some capability in this country to produce synthetic fuels.

What recommendations or suggestions would you have to improve the Corporation?

Mr. Coughlan. Well, sir, the principal requirements, I think, are those which I itemized in the report as subjects that properly could be taken up at a special meeting, informal or otherwise, of the Board of Directors, the management approach that is very specific in terms of strategy and tactics to achieve particular objectives.

I think what might in addition be helpful at this point, rather than to dwell on the past, would be to have the Corporation on an in-house basis, perhaps the Inspector General's office for example, look at the management, planning, scheduling, policy development, things like that that are or are not in place, and recommend what they would consider appropriate measures to improve them.

I don't question in the slightest the intent of all of the principals to accomplish the objectives of the act. I think it might be useful to them, however, if an objective look were taken, but I think it should be by someone who is very familiar with the Corporation, with the problems that exist by circumstance in the economy and elsewhere, so that they can assist the Corporation in any management audit that might be involved.

Knowing as I do the caliber of the Inspector General and his staff, I think it would be very appropriate for them to undertake that kind of a look.

Senator Bingaman. You're saying that the Inspector General within the Corporation should conduct, as you call it, a management audit.

Mr. Coughlan. Yes, sir.

Senator Bingaman. Which would come up hopefully, with some very specific recommendations on how to improve various aspects of management within the Corporation.

Mr. Coughlan. I think that would be much more appropriate than, for example, to have GAO or some outside activity do it.

Senator Bingaman. How long do you think such a management audit would take?

Mr. Coughlan. No longer than 3 months.

Senator Bingaman. Do you think that at the end of a 3-month period we could have a mangement audit done that would point out the real problem areas in the functioning of the Corporation and chart a course for correcting them?

Mr. Coughlan. Yes, sir, I believe it would be a constructive thing to do that.

Senator Bingaman. As you understand the way the Corporation functions, how would a management audit get initiated by the Inspector General? Would it have to be at the Board of Directors' request?

Mr. Coughlan. No, sir, it would be strictly at the option of the Inspector General. He reports to the Congress, as I understand it.

Senator Bingaman. All right. Are there any other specific recommendations which you feel should be brought to our attention at this point to improve the functioning of the Corporation?

Mr. COUGHLAN. No, sir, I think those that I had were made in response to an earlier question, and what I have in my report and in other documents that I prepared for the Corporation.

Senator BINGAMAN. Let me ask one other question. You're now with the Energy and Minerals Department of the State of New Mexico?

Mr. COUGHLAN. Yes, sir.

Senator BINGAMAN. I'd be interested in your views as to the proper role that States should play in any decisionmaking that is made with regard to projects that occur within the State's boundaries.

At the present time my understanding is—and correct me if I'm wrong—that the States have no real role, that they basically are only advised when a decision has been made.

Mr. COUGHLAN. They're consulted with at various times, as I understand it. For the record I am director of the Energy Resource Development Division of the Energy and Minerals Department. As such, synthetic fuels activities, the development of feedstocks for synthetic fuels purposes, et cetera, are within my purview.

It is my belief that the States should be the final arbiters of anything to do with the environmental aspects of using these feedstocks, extracting them, processing them, whatever, and that also the States should have a major decisionmaking role relative to the location, construction, et cetera, of any plants that might have to do with processing the feedstock.

To the extent that I am familiar, just generally let's say, with what the Corporation does, I know that since I've taken over this new job I've received materials from the Corporation but they were pretty much on an information basis.

Now it's true the States have various permitting authorities, but we also have EPA in the act, DOE is in the act, and I just think that when push comes to shove, it should be the State that has the final decisionmaking authority.

Senator BINGAMAN. So you believe that the States need to have a more direct involvement in the decisionmaking of the Synthetic Fuels Corporation than they presently have; is that accurate?

Mr. COUGHLAN. Yes, sir.

Senator BINGAMAN. What would be required to give the States that more direct involvement? Could it be done administratively by the Synthetic Fuels Corporation or would that require a change in legislation, as you understand it?

Mr. COUGHLAN. As I understand the legislation—and frankly I haven't read it in at least 6 months—the States do not have any absolute authority over what happens to their feedstocks or to their economy resulting from synthetic fuels development, and I think the States should have that authority.

Senator BINGAMAN. You said the States should have a final decisionmaking role with regard to environmental concerns.

Mr. COUGHLAN. Well, it may not happen for a while with synthetic fuels, but we at the State level are frequently running into boom or bust problems, as I'm sure you well know, from energy-related impacts.

One of my bureaus is entitled community assistance, and that's all it is concerned with, is what happens to communities from a boom or bust cycle.

So we have really a very valid interest in what is going to happen to a community because of the location of a processing plant, or because of the need for transportation systems, et cetera, in addition to the normal environmental concerns.

Senator **Bingaman**. How are these environmental concerns now handled by the Synthetic Fuels Corporation?

Mr. **Coughlan**. I'm not really in a position to answer that. As I said, I'm only going on about 3 weeks with my new hat, but the environmental office at SFC did send some material in last week, which frankly I haven't yet had a chance to read, but I gather it's basically their approach to the environmental monitoring plan.

In the State the environmental improvement division does have the go-ahead from the standpoint of permitting and air and water quality and things like that. So at the State level there are a number of agencies that have to be involved, but I don't think that the State is involved early enough or completely enough in these kinds of decisions.

Senator **Bingaman**. Thank you very much. That's all the questions I have, Mr. Chairman.

Senator **Cohen**. Mr. Coughlan, I just want to go back to your report for a few moments. In looking through the various listings of the complaints or comments that you received, there are some 23 in number.

Is it your opinion that these comments were anything but given in the most constructive——

Mr. **Coughlan**. I'm sorry, sir?

Senator **Cohen**. Were these comments given to you from the members that you interviewed, given in a constructive vein?

In other words, is there anything in these 23 that was perceived by you to be negative?

Mr. **Coughlan**. Absolutely not. Actually there are 44.

Senator **Cohen**. I'm looking at the first 23 and then I will go on to the others, but these were all given from the various members to say "Here's how we think you can make things work better." Is that correct?

Mr. **Coughlan**. Yes, and I need to correct myself. It's 39, I beg your pardon.

Senator **Cohen**. Because then you went on page 7 of your report to indicate again some of the general views which you summarized, and then we come to your recommendations.

I'd like to take just a moment to review several of the recommendations. I mentioned the one before about the development of the statement of policy to document the resoluteness and purpose and certainty of the approach by the Corporation, but "B" on page 8—I'll just go through these for the record—you recommended the "preparation of specific instructions to be used by the Corporation staff for definitization of detailed plans for the implementation of Board policies.

"The instructions should specify all subject matter to be included in each plan and should establish firm dates for submittal of the plan to the Board of Directors for approval."

I assume your recommendation stems from these comments that came to you that there was an absence of such a specific set of instructions to the staff. There was an absence of specific guidelines that the Board members could have in fact followed; is that not true?

Mr. COUGHLAN. Yes, sir. I think the basic criterion I used for anything that was reported in here, or anything concerning which I proposed recommendations, was that one or more of the Directors had to raise it.

In most cases it would be at least two, and in some cases many more, but somebody had to bring up something or I didn't feel it was my prerogative to introduce it.

Senator COHEN. Obviously you were hired to make this report because somebody, namely, the President, trusted your own judgment to go out and assess the nature of the complaints and to try and make a report or set of recommendations.

Obviously you were held in some confidence by the management of the Corporation to go out and do that. That would seem to be the case.

Now, "C," "Specification of the approach to be used for the establishment of the comprehensive strategy with particular attention to the scope and nature of coverage to be provided. Such guidelines should be developed with sufficient detail to serve as the base outline for the report to be submitted to the Congress."

As of the time that you conducted the survey, that had not been done, to your knowledge?

Mr. COUGHLAN. That's correct.

Senator COHEN. Now "D," "Determination of responsibility to be assumed by the Board for continuing review of the processes of program development and establishment of the comprehensive strategy. Particular emphasis should be given to ways in which such review can serve as an ongoing audit of both management and technical aspects to the two critical Corporation activities."

Once again, this gets back to having a plan so that somebody can make some assessment as to what's wrong with the plan, or what's wrong with the program, or what's wrong with the personnel, or what is wrong with the policies.

Is that not the purpose of that?

Mr. COUGHLAN. Yes, sir. I might add with my usual frankness, which may not be appreciated completely, but the individual members of the Board are the trustees. They are the ones responsible to the Congress and to the people; so "D" is an absolute as far as I'm concerned.

Senator COHEN. I intend to get into this later on, but as a matter of fact, the Board of Directors have specific statutory responsibilities, some of which in my judgment may not even be delegated because of the specific reference in the statute itself, but nonetheless, they are responsible for the comprehensive strategy and developing it. They are responsible for carrying out the policies of this Corporation.

To the extent that they fail to have information, that they fail to have the plans, that they fail to have the material communicated to them, they have, it seems to me, a legitimate concern about whether they are being derelict in their duties, whether or not they are going to be held politically, if not financially, responsible in some way.

Mr. COUGHLAN. I agree.

Senator COHEN. If there is a misuse of funds, if there is a misappropriation of money, if there's a situation in which they come in and they are asked to rubberstamp something and later find out that that was not a wise thing to do, they're accountable. Their names, reputations and perhaps even pocketbooks are on the line.

Mr. COUGHLAN. It is a public trust. They don't have much choice.

Senator COHEN. The final point "E" is a frank, indepth and unstructured exchange of views concerning management matters, including the concerns characterized previously in this memorandum.

"Attention should be directed also to any desired improvements in the dynamics of the Board or the relationship between the outside and the inside directors."

Is it fair to say that that's how you perceive part of the problem—in terms of "outside" versus "inside?"

It's not Hatfield and McCoy. That may be too strong an analogy, but nevertheless, there was a sentiment that the "inside directors" resented the "outside directors," the "outside directors" resented not being more on the inside to the extent they could be.

Mr. COUGHLAN. That was not my perception, but that reflects statements actually made by the outside Directors.

Senator COHEN. That is your recommendation to try to correct that problem. I note on page 9 at the bottom of the page where you anticipated that someone might possibly raise an objection to an informal meeting, you indicate you make recommendations as to how to deal with that problem by creating the three executive, policy, and planning committees and assigning responsibility among the membership.

You indicate, and I think this is important, that, "It should be remembered, however, that the use of the committee option should be given the same urgency of accomplishment as that recommended for the informal meeting."

So obviously, you felt a sense of urgency was important in terms of either having that 2-day informal get-together or having a committee structure so they could try to deal with the problems that you discovered through this interview process. And you attached some sense of urgency to correcting the problem.

Mr. COUGHLAN. That's correct. If there is alleged to be a problem, then somebody ought to get busy with a solution.

Senator COHEN. And to your knowledge, neither one of those recommendations—the task force or the committee structure or the informal meeting—were ever acted upon?

Mr. COUGHLAN. Not to my knowledge.

Senator COHEN. That's all I have, Mr. Coughlan. Thank you very much. Thank you for coming all the way from Santa Fe. We appreciate it.

Mr. COUGHLAN. I will be happy to get back to Santa Fe.

[Mr. Coughlan's prepared statement follows:]

Prepared testimony of Robert E. Coughlan before the Subcommittee on Oversight of Government Management, Committee on Governmental Affairs, July 27, 1983.

My name is Robert E. Coughlan. I am appearing here today in response to Senator Cohen's July 8, 1983, letter requesting that I testify in my capacity as a former consultant to the United States Synthetic Fuels Corporation. In that connection, I am pleased to note for the record that I have the express written permission of the President of the Corporation to disclose to the Subcommittee and its staff Corporation information other than trade secrets or other business information requested to be maintained as confidential by the sponsors of projects seeking financial assistance from the Corporation.

The July 8th letter requesting my appearance asked that I address the following four subjects:

1. The purpose(s) for which I was hired as a consultant to the Synthetic Fuels Corporation.
2. My findings concerning the adequacy of communications within the Corporation.
3. My views on the effectiveness of the management of the Corporation.
4. My recommendations for improvement of the communications or the management of the Corporation.

I will be as responsive as I can to that request. However, the responses in this prepared statement are necessarily general because I am not certain of the nature and extent of the Subcommittee's interest in view of the general language in which the questions have been posed.

In response to item 1 -- the purpose(s) for which I was hired by the Synthetic Fuels Corporation:

> I initially entered into an intermittent consulting relationship with the USSFC under terms of an agreement dated April 1, 1982, to "provide consulting services and advice to the Corporation regarding the development of standards and procedures for the technical reporting and technical monitoring of projects awarded financial assistance by the Corporation." While that basic agreement was still in force, I was requested by terms of a second agreement, dated July 20, 1982, to "review and analyze the Corporation's over-all Information Services Program's needs." Subsequently, on September 10, 1982, the basic April 1, 1982, agreement was superseded by a new agreement which again was concerned with project-related information, but which was more precise in terms of the services to be performed. A December 9, 1982, amendment to that agreement provided for assistance to "the President of the Corporation in the review and analysis of both formal and informal operating procedures and associated communications practices relating to interactions

> between and among the President, the Chairman, and other members of the Board of Directors of the Corporation." I terminated my consulting relationship with the Corporation effective June 30, 1983, because of a potential conflict of interest resulting from new duties I was to assume for the State of New Mexico on July 1, 1983.

In response to item 2 -- my findings concerning the adequacy of communications within the Corporation:

> My assignments in such regard were limited to (1) an assessment of information flow as it related to eventual project monitoring, (2) an analysis of information requirements to be addressed by the Corporation's information services functions, (3) a review of communications concerns of the Board of Directors, and (4) such ad hoc discussions of the Corporation's existing or proposed communications activities as were ancillary to the three tasks just cited. My findings in each instance were thoroughly documented -- in the various materials which describe the Project Control System (a misnomer, in fact, since the system is detailed on the basis of project monitoring, not control); in a report providing an "Overview of Information Management;" and in a memorandum on "Corporate Communications," which I understand the Subcommittee has already received. In all cases findings were accompanied by recommendations for any actions that were considered useful measures for the improvement of communications.

In response to item 3 -- my views on the effectiveness of the management of the Corporation:

> My earlier description of the services I performed for the USSFC made it clear, I hope, that I was not retained to perform any evaluations of management performance. My ongoing responsibility was concerned with design of a system for project monitoring and reporting. Such additional tasks as I was assigned related to information management and, to a limited degree, communications.

In response to item 4 -- my recommendations for improvement of the communications or the management of the Corporation:

> Such recommendations as I have regarding communications and information management have been detailed in the documents to which I have referred in my response to the second question. I suggest they are too involved to recount in this statement -- except to note that, in most respects, they relate to the flow of information.

In closing, I would like to offer two comments as one who has been directly involved for some time in this Nation's attempts to provide for its energy future. In that regard, there is no question in my mind that we must develop alternative energy resources, both renewables and others, and that synthetic fuels must be a part of that scenario -- provided that environmental requirements are met and that the States have the final determination as to the disposition and processing of the feedstock resources within their borders. There also is no question in my mind that the directors, officers, and staff of the United States Synthetic Fuels Corporation are providing a vital service in their efforts to implement the essential requirements of the Energy Security Act.

Mr. Chairman, that concludes my prepared statement. I will be pleased to answer any questions you may wish to ask.

Thank you.

Senator **Cohen**. Our final witness today is Kenric Lessey, Inspector General of the U.S. Synthetic Fuels Corporation.

[Witness was sworn.]

TESTIMONY OF S. KENRIC LESSEY, Jr., INSPECTOR GENERAL, U.S. SYNTHETIC FUELS CORPORATION, ACCOMPANIED BY ROBERT GAMBINO, DEPUTY INSPECTOR GENERAL; RUSSELL MILLER, DIRECTOR OF INVESTIGATIONS AND INSPECTIONS; AND JOHN J. TRANT, DIRECTOR OF INTERNAL AUDIT, OFFICE OF INSPECTOR GENERAL

Mr. **Lessey**. Senator, if you would like me to submit the statement for the record, there are a couple of things I might paraphrase, and I will proceed.

Senator **Cohen**. It would be very helpful.

Mr. **Lessey**. First of all, I would like to compliment and thank you for the courtesy and professionalism of your staff. I have seen the opposite in action, so I am very sensitive to this. And for that reason I am especially appreciative and have a great amount of respect for it. Second, in view of Senator Bingaman's question—and it looks as if I just lost my summer vacation—I might paraphrase the first part of my statement because I was going to say something to you in that connection anyhow.

There are three authorities by which I would initiate an audit, investigation, or report of some kind: First, under the direction of the seven-man Board of Directors; second, I have authority to make my own initiatives, and no employee, officer, or Board member is allowed to prohibit me or stop me from doing that.

Then, under paragraph h of my section of the statute, which is 122 of the act, by direction of the Congress. I intended to say to you today that my office is at your service, and we would be glad to help in any way that we can.

In that connection, your staff indicated that you would probably be interested in my having with me today those of my staff who were directly involved in preparing the reports in which you had a particular interest and which have been filed for the record.[1]

I have a small staff, intentionally so, because I like to practice what I preach and save the taxpayers' money. They are all very dedicated. Most of us have a national security background and are thoroughly dedicated to the mission and to the success of the U.S. Synthetic Fuels Corporation.

I would like to introduce them to you now. Mr. Robert Gambino, the Deputy Inspector General; Mr. Russell Miller, Director of Investigations and Inspections; and Mr. John Trant, who is the Director of Internal Audit. Those gentlemen, in addition to myself, were the gentlemen responsible for preparing the reports in which you expressed an interest.

Senator **Cohen**. Let me say, as long as we are passing bouquets, that Susan Collins and Mary Gerwin, who were chiefly responsible for gathering the information, also hold not only you but your associates in very high regard. They requested information, and I must say for those who were here from the Synfuels Corporation as well, that we got the information requested on time and actually ahead of time, which is a very unusual thing to occur up here on Capitol Hill. Usually, when we are dealing with our own agencies, we might get it the day of the hearing, and maybe during the course of the hearing, but we rarely get it on time. So that was to your credit.

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[1] See pp. 213-227, 237-251.

Mr. LESSEY. Thank you, sir.

Senator COHEN. Mr. Lessey, in your report on that industry survey which you conducted, you stated there was "almost"—I am quoting—"complete agreement among respondents that the decisionmaking process at the SFC was too slow." Could you perhaps elaborate on why the respondents characterized the Corporation's work in that way?

Mr. LESSEY. I think one of the first reasons is one that I outlined in my opening statement, and I think it's also appropriate at this time, sir, in view of the confusion in the earlier testimony today about the time schedule, that I should specify that the period covered by the report was essentially from December 1980 to December 1982, the period of the first and second solicitations.

One of the purposes of doing the report was to look to see how industry viewed the way the Corporation had done its business in that time period, so as to benefit and learn from it as we moved ahead into the third and other types of solicitations.

Senator COHEN. I was aware that that was the time frame. Even though the report that I have, your memo——

Mr. LESSEY. The report is dated April because the actual work on it was done in January, February, and March.

Senator COHEN. But your report dealing with the industry has to be placed in the chronological context of the problems the Board was having among itself or within itself in terms of how its assessment was. So you have to place your report also within the context of Mr. Coughlan's report as well.

Mr. LESSEY. Absolutely. But I did want to note that, because it was historical in nature and went back to the earlier period, part of that caused the slowness and the criticisms of delay or the difficulty of doing business. It goes back to the fact that we had the early management, the transition period of management and the slow start, and definitely a learning curve as the corporation moved ahead with its business.

Senator COHEN. I might point out just for the record again in terms of timeframe, that the Committee on Appropriations, the Subcommittee on Appropriations for the Interior, also filed its report in December of 1982, reflecting similar types of concerns or criticisms about the Corporation. So it is all within the very same timeframe. And we are not dealing from January on.

Mr. LESSEY. We were aware of that report, and a sense of coordination was one of the reasons we were interested in doing Project Indigo, because of that.

Senator COHEN. All right. Tell me again about the reasons why you feel the Corporation was characterized in the way of moving too slow. Because of the delay in confirmation, is that one of the reasons?

Mr. LESSEY. Yes, sir, because the act was passed on June 30, 1980. The first employee of the Corporation wasn't hired until November 1980. You had the early management started. The Board, of course, left January 20, 1981. Mr. Noble wasn't confirmed, I believe, until May 1981; the other Directors making a quorum not until, I think, September 28, 1981. Then came the formation of the new management as they moved along.

Senator **Cohen**. But essentially, that management was the same as the project's transition team?

Mr. **Lessey**. No. By management, I mean the people who were involved in the projects office, T&E, the engineers, and the financial analysts and so forth, the middle management level of the Corporation.

Senator **Cohen**. But in terms of the management at the top level, the administrative level, that was essentially the same from the time of November 1980. You had the same personnel involved from, let's say, November 1980 all the way through; namely, Mr. Noble, the Chairman, you had Mr. Schroeder, the President, you had others who were associated who came in at essentially the same time. Did they not?

Mr. **Lessey**. I see what you're saying. I would not have characterized it as management. I also wish to stress here that I did not come into office until May 1982. So perhaps I had better stay off ground with which I am not very familiar.

Senator **Cohen**. In the survey you stated that the communications within the Corporation do not get high marks from industry representatives. Again, would you identify for me some of the specific observations that were cited by the respondents that you interviewed to come to this conclusion about not getting high marks? Why was that so?

Mr. **Lessey**. Maybe the best way to answer that is to say that the industry, which has been interested in doing business with the Corporation, is very perceptive of what goes on inside the corporation. So therefore, all of the things, I would say, which you have brought forth in your hearing today are things off which industry was well aware.

My list might parallel what you have already elicited. But the industry was aware that there were problems of communication among Directors. There were also many comments of poor communications between staff and the Board, between staff and senior management, and between senior management and the Board.

Senator **Cohen**. Was there also a perception on the part of industry that there were divided or mixed signals coming out of the administration with respect to synfuels?

Mr. **Lessey**. Yes, sir, there was.

Senator **Cohen**. On the one hand you had the administration that was, let's say, lukewarm at best about synthetic fuels. You had a Director of OMB who is quite vocal in opposition to it. You had the Chairman of the Corporation who was on record, at least quoted in the papers that I read, as saying he recommended abolition of the Corporation, the man who was put in charge of it. Were those some of the factors that contributed?

Mr. **Lessey**. By the comments which we received, industry was reading the same newspapers which you were, yes, sir. Well aware of them.

Senator Cohen. In essence, the Corporation didn't have a lot of credibility at that particular point you were looking at.

Mr. Lessey. Credibility has a different connotation, Mr. Chairman, but all of those things made for uncertainty in the eyes of managements who were faced with the problem of going to their boards of directors in a period of a poor economy and getting a commitment for substantial funds to put up equity for projects. Yes, sir.

Senator Cohen. Since your report was filed, has the management taken steps to address the concerns that your report reflected?

Mr. Lessey. I think it's fair to say—again my report being historical—that many things had been happening as history evolved here. Many steps had already been taken by the time that my report was something which was down on a hard piece of paper.

Second, as you have in the record from one of the other statements which was submitted, there had been a small sort of informal survey which had been conducted by management itself, and I believe they had taken some steps along that direction.

The other thing which was important was rather specific, getting right down to the nitty-gritty of this business; that is, in the process of trying to get some projects under way, the negotiators and the representatives of the Corporation had learned in the school of practical realism that there were a lot of problems with trying to get the financial backing for some of these projects.

There was the "chicken-and-the-egg" item that kept popping up: The sponsors wanted a conditional commitment from the Corporation; the Corporation didn't want to give the conditional commitment until the equity was on the table. It took quite a while for this to be resolved, but eventually it was.

I regard as benchmarks, high-water marks: when the Corporation realized that it should and could legally and constructively issue conditional commitments; and then, when it began to become imaginative in some of its financing possibilities. Specifically, I would have referred to the rollover financing whereby a loan guarantee could be converted over to a price guarantee. These were things that the industry understood. They were for real.

One other point I want to make in response to your question. In terms of a specific response to the report, I would say that it is probably still oncoming. I can give you a specific example of something which has happened. The general counsel requested to have a conference with respect to the report. My staff and his staff and the general counsel and myself had about a 3-hour meeting, which I think we'd call a critique. The purpose of that meeting was so that they could benefit from what they might learn from the report.

Senator Cohen. What I noticed in your report and that filed by Mr. Coughlan is a remarkable similarity in terms of the nature of the problems the Corporation was facing.

For example, under the section called Communications—page 11 of your report—and I am repeating some of this:

> Communications within the corporation do not get high marks from industry representatives. Those sponsors who have dealt with the corporation over time have experienced numerous situations wherein one part of the corporation did not know what the other was doing. They believed that the SFC top management had not

> made its policy positions known to the staff. They also felt that the Board of Directors was taking action on matters about which it was insufficiently briefed.

It seems to me that that is a remarkable coincidence of commentary coming from the industry side of things.

Mr. LESSEY. Permit me to editorialize on my report, if I may, Mr. Chairman.

As I have already indicated to you in correspondence, this report was not an IG report. In fact, I should correct myself. This survey was not an IG report as such.

Whereas, we did, I think, appropriate analytical work with respect to how the material was handled, it was not an analytical report. It did not have findings, as such, or recommendations, per se, of the Inspector General.

We were trying to transpose information in the same way that a corporation might run a marketing survey to see how the consumer felt about the product. Therefore, there has been no chance for the Corporation to rebut or to respond to some of those statements.

And the ones which you happened to select there, maybe we should be a little bit cautious about how we would address those.

Senator COHEN. I am not asking whether or not the Corporation ought to have a chance to rebut them. I assume that you stand by the basic survey that you conducted.

Mr. LESSEY. I stand by the survey as a comment transposed. That doesn't speak for the validity of the comment.

Senator COHEN. In other words, you don't stand behind whether there is any merit to the industry's concerns in the field of communications?

Mr. LESSEY. We did our very best to bring balance to the report, and, I am not contradicting something I have said.

Senator COHEN. I just want to know. What does this mean?

Mr. LESSEY. It is the equivalent of a market survey of industry as to what they felt.

Senator COHEN. I accept it as such. This was a market survey of you going out or your staff going out soliciting comments from industry, and all I am pointing out is there seems to be remarkable similarity in terms of the comments coming from industry and those coming from members of the Board of Directors.

Would you agree with that?

Mr. LESSEY. Yes, sir, and I would submit there was not any world shaking news in that report.

Senator COHEN. Everybody knew the same thing?

Mr. LESSEY. There were offices in the Corporation which had heard some of these things for a long time, yes.

Senator COHEN. Under section 122(b)(3) of the Energy Security Act, you are required—and I am quoting:

> To report expeditiously to the Attorney General whenever you have reasonable grounds to believe there has been a violation of Federal criminal law.

Mr. LESSEY. That is correct.

Senator COHEN. Have you referred a matter to the Department of Justice for examination and investigation?

Mr. LESSEY. Have I ever referred one? Are you referring specifically to the matter which was brought up this morning?

Yes, sir. On the matter to which you refer, we consulted last week with the Office of Legal Counsel in the Department of Justice, and the matter has been referred to the Public Integrity Section, Mr. Gerald McDowell. At the moment the status is I am awaiting an opinion letter from him.

Senator **Cohen**. This is an area we got into this morning.

Let me just ask you, if I can, in a hypothetical way, without commenting on the particular allegation, but it has to do with the question of whether or not an agreement was ever carried out. Assume you had a situation in which a member of the Board of Directors or several members of the Board of Directors had a conversation dealing with Corporation business, in which one Director agrees to do something else in return for a favor or a conduct or an action which was never, in fact, carried out.

In your professional judgment, does that detract or in any way diminish the significance of the agreement in the first place?

In other words, you have two people talking, saying "I will do the following if you will do the following." The act is not carried out. Does that in any way diminish the significance of the agreement being reached in the first place?

Mr. **Lessey**. As you know, that is a hypothetical, I stand for ethics of the highest integrity, but I would prefer not to get into hypotheticals. I think Senator Rudman drew a distinction this morning. There is one between logrolling and something else.

I would choose not to ad hoc an opinion on that, if I may, other than to assure you, in your responsibility, that my staff and I are determined to keep our eyes and ears open for everything which might be considered unethical or illegal.

Senator **Cohen**. Something might not be illegal, but might be unethical.

Mr. **Lessey**. If it is unethical, I don't like it either.

Senator **Cohen**. In the Energy Act, as I understand it, there is no recourse for simply unethical conduct. If it isn't illegal, there is no recourse, as I read the law.

Mr. **Lessey**. If you have any spare time, I could use your advice on that, Mr. Chairman.

What you are raising, in effect, is the issue which I have been facing with respect to the matter which you mentioned earlier. That is why I went to the Office of Legal Counsel in the Justice Department.

Senator **Cohen**. You see, part of the problem is—I think Mr. Coughlan used the phrase—if he is still here— he talked about trustees, right? Trustees have a higher duty than anyone else, whether in the private sector or the public sector?

Mr. **Lessey**. Absolutely.

Senator **Cohen**. If you are a fiduciary, without going to Cardozo, you have a much higher standard of obligation, do you not?

Mr. **Lessey**. Absolutely, and I think that there is a public trust as a Director of the U.S. Synthetic Fuels Corporation.

Senator **Cohen**. In your prepared testimony, you referred to the audit which you performed on the 1982 travel and relocation expenses of the Corporation. You filed a report to the Audit Committee outlining your exceptions to that audit, is that correct?

Mr. **Lessey**. Yes, sir.

Senator **Cohen**. One of the exceptions concerned a $19,500 payment made by the Corporation to Mr. Schroeder for a real estate broker commission which he paid in 1981, is that right?

Mr. **Lessey**. Yes, sir.

Senator **Cohen**. Why did you question this reimbursement?

Mr. **Lessey**. Let me explain the mechanics of the audit. The audit was conducted by Mr. Trant, the Director of Internal Audit. Mr. Trant is a gentleman who has recently joined my staff. He is a CPA. He started his career with a large public accounting firm and then had a very successful business career in internal audit at the Kennecott Corp. He received general direction from me, not specific direction. In his professionalism—that is, his audit—those are the items which he came up with. When I reviewed his work, I agreed with his conclusion, that I did not think that that particular claim fell within the Corporation's policy for relocation reimbursements.

Senator **Cohen**. What were the circumstances of that particular claim?

Mr. **Lessey**. In brief summary, sir, it involved a claim of the purchaser of a house in Virginia, the gentleman coming to Virginia, the commission on the purchase of the house being paid by the purchaser rather than by the seller.

Senator **Cohen**. Is that unusual?

Mr. **Lessey**. Yes, sir.

Senator **Cohen**. Almost rare?

Mr. **Lessey**. Your choice of words, but this was researched by my man, as you know. It was also researched by the General Counsel of the Corporation, and I would say that is a fair conclusion, yes, sir.

Senator **Cohen**. Was there a reduction in the purchase price—evidence of a reduction in the purchase price to reflect the buyer paying the commission?

Mr. **Lessey**. You could be getting into a technical area there.

May I call on my Director of Internal Audit to respond to that?

Senator **Cohen**. Certainly.

Mr. **Lessey**. This is Mr. John J. Trant.

[Witness was sworn.]

Mr. **Trant**. From the various documents presented, it really is impossible to tell, I would say, as to what the selling price was. The closing documents did state that the real estate commission was being paid by the purchaser.

However, when the figures were entered on the closing statements, there was no entry for related dollars to be paid from the buyer's funds.

Whether the price was marked up or down is hard to say, and it is impossible to say as to whether or not there was a separate consideration of the $19,500 outside of the contract.

But it was unusual enough that I felt that it was worth raising the question, because it seemed to be in the nature of additional consideration for purchase rather than an expense of relocation.

Senator **Cohen**. Was there any indication that the price was $325,000 and then later was $305,000?

Mr. **Trant**. There was noted in the inner columns a base purchase price of $305,500, I believe, but the actual figures on the closing statement in the columns showed a selling price of $325,000, with the commission being paid from the seller's funds rather than from the buyer's funds.

Senator **Cohen**. Did you check to see whether the seller paid a commission?

Mr. **Trant**. I did not. I reported the facts, and I understand it was also thoroughly investigated by the department of the general counsel.

Senator **Cohen**. So it showed a final payment of $325,000 as a seller's commission rather than a buyer's commission?

Mr. **Trant**. The document shows both things. In the inner columns it shows the commission being paid by the buyer. It has that statement—$305,500, base purchase price, plus commission—and says the commission is being paid from the down payment.

The actual closing statement, where it tabulates where the dollars come from, shows a selling price of $325,000, the commission being paid from the seller's funds.

Senator **Cohen**. If the price of $325,000 and the commission were paid by the seller, then that would not be part of the buyer's relocation expenses? If the commission is paid by the buyer, then that could be conceivably argued it was part of the relocation expenses?

Mr. **Trant**. That is right. If, in fact—well, no, the policy did not provide for a commission by the buyer. It said "usual and normal expenses", without further definition, but in any of the elaborations it does not specifically mention any commission paid by a buyer.

Senator **Cohen**. What I am saying is that if one were to pay a total purchase price of $325,000, which that person could at least plausibly argue that $19,500 of that purchase price was a broker's commission, that would be considered to be an expense—whether or not the Corporation would allow it is another matter—as opposed to being part of the original purchase price?

Mr. **Trant**. They might say, all right, that they agreed to pay the commission that normally the seller is obliged to pay; however, in so doing, it seems to be in the nature of additional consideration for the housing and therefore not eligible.

Senator **Cohen**. In any event, you recommended against allowing it?

Mr. **Lessey**. Yes, sir.

Senator **Cohen**. What is the status of that right now?

Mr. **Lessey**. The status of that is that I turned it over to the Audit Committee who asked the Corporation for a reply. A check for the $19,500 plus interest has been deposited in the Corporation's account in the bank. That is part of the audit response which is presently in the hands of the Board of Directors, having been passed to them from the Corporation.

Senator **Cohen**. In that same report concerning travel and location, you also questioned three payments of $1,590 each to Mr. Schroeder. What was the basis of that?

Mr. **Lessey**. I didn't hear you, sir.

Senator **Cohen**. $1,590 each, three payments to Mr. Schroeder. What were the reimbursements that were questioned?

Mr. **Lessey**. I believe you are addressing the question of interest differential payments, yes, sir.

Senator **Cohen**. Tell me about those.

Mr. **Lessey**. That was a question of interest differential practice in compensation for employees moving from one area to another.

Senator **Cohen**. Stop right there. If you sell your house and you have a mortgage at 9 percent, and you move to an area and you have to buy another house, you have to pay 12 percent, that is the kind of mortgage interest differential you are talking about?

Mr. **Lessey**. Yes, sir. The issue here was the fact that the house at the prior location was not sold. That is the second exception which Mr. Trant cited in his audit in that case, yes, sir.

Senator **Cohen**. What were the findings of the Corporation with respect to those payments?

Mr. **Lessey**. The Corporation has allowed that claim for payment, and that is what I was referring to when I said that has been forwarded to the Board of Directors by the Corporation. The Board of Directors has not yet acted upon it.

Senator **Cohen**. Even if the audit committee does not take any action on this, do you have any authority in this matter, any further authority?

Mr. **Lessey**. Well, I am supposed to be a persistent junkyard dog, and I am, so I am still reviewing that. But we do our internal audit in coordination with the external auditor, and I have already conferred with my external auditor, and my external auditor, on an informal and preliminary basis, does not see this as a normal practice.

So I am assuming that the matter will probably come up for review when the forthcoming external audit is performed.

Senator **Cohen**. In your May 10 report, outlining the exceptions you took to the May 10 report, you say, and I quote: "The Corporation should not be allowed to delay the auditing process."

Do you think the Corporation is acting swiftly enough to resolve these questions?

Mr. **Lessey**. I don't know. I would isolate out these particular exceptions but in general, I feel, and my internal auditor feels, that the responses to the audit work have been slow, yes, sir.

Senator **Cohen**. There was one other item that you questioned, I believe. That was $3,000 in expenses. What is the status of that?

Mr. **Lessey**. The question on that was really a question of lack of documentation at the time that Mr. Trant performed the internal audit—such things as an airline ticket receipt which was missing, and so forth. The Corporation has provided documentation covering that period.

Let me say that procedurally this whole audit response has not been returned to me. I am aware of what it contains because I have received courtesy copies from the Corporation. Procedurally it has gone from the Corporation to the Board of Directors and the audit committee, but I have not officially received answers back from them as yet.

So until they act on it, I am sort of sitting on the sidelines. I would say, just in a conversational sense, that probably the documentation to fill the gap in that third item has been provided.

Senator **Cohen**. But you are unaware of that at this time?

Mr. **Lessey**. Officially, I am unaware of it, yes.

Senator **Cohen**. Gentlemen, I thank you both for your testimony.

[The prepared statement of Mr. Lessey follows:]

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TESTIMONY OF S. KENRIC LESSEY, JR.
THE INSPECTOR GENERAL
U.S. SYNTHETIC FUELS CORPORATION
BEFORE THE
SENATE COMMITTEE ON GOVERNMENT AFFAIRS
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT
27 JULY 1983

Mr. Chairman, Members of the Subcommittee:

As Inspector General of the United States Synthetic Fuels Corporation, I act under the authority of Section 122 of the United States Synthetic Fuels Corporation Act of 1980, part of the Energy Security Act passed by the 96th Congress. Along with the Deputy Inspector General, it is my duty to supervise, coordinate, and provide policy direction for all auditing, investigative and inspection activities of the Corporation in order to promote economy and efficiency in the programs and operations of the Corporation and to detect and prevent fraud, waste and abuse.

In order to address these responsibilities, Congress has authorized me to have access to all of the Corporation's records and information, authority to request assistance from all other government entities, and the ability, through use of subpoena power, to collect whatever investigative materials and information I deem necessary. My Deputy and I enjoy direct access to the Board of Directors, to whom we report, and have been fortunate in bringing together a small staff of employees and consultants with signficant experience in the several areas which concern our office.

It is our basic responsibility to keep the Board of Directors and the Congress fully and currently informed concerning problems which come to our attention, to make recommendations, and to follow-up on corrective actions. I am pleased to appear before this Subcommittee today to discuss the activities of the Office of the Inspector General, as well as any of our audit findings concerning the economy and effectiveness of the Corporation's operations.

After coming to Office in May 1982 we initiated an administrative review of all Congressional inquiries, existing consultant reports (especially the "Administrative Practices Review"), outside auditor comments, and other critiques of the Corporation to "clear the decks" to determine if there were any areas of "old business" which demanded immediate attention before we undertook any new initiatives. We especially examined instances where recommended actions had not been taken by the Corporation.

As a result of this Administrative Review, completed in June 1982, we determined that there were two administrative areas needing immediate attention: control procedures with respect to consultants and contractors, and automated data processing, information and office systems. Therefore, we initiated special reviews of these two areas in the Summer of 1982, and reported our findings on 22 July 1982 and 18 August 1982, respectively. Both of these reports fall within the scope of your current requests for reports on contracting procedures and copies have been provided to this Subcommittee. The thrust of our work was to assure that adequate procedures were in force to promote economy and efficiency in the Corporation's administrative operations. These reports are summarized as follows:

(1) The report on "Contracting Controls" found the Corporation's contracting process to be improving and made recommendations of appropriate remedial action to correct the following findings:

(a) Insufficient rationale of the need for a contract,
(b) No requirement for up-front disclosure,
(c) Basis for contractor selection undocumented,
(d) Insufficient scrutiny of executive search contracts,
(e) No requirement for contract monitoring reports, and
(f) Multiplicity of control documents.

(2) The "Inspection of Automated Data Processing, Information and Office Systems" identified problems to which management should give closer scrutiny. We recommended substantial improvement in appropriate controls, monitoring, and centralized direction of procurement and management.

The Annual Report of the Inspector General, required by statute, was published and delivered to the Board of Directors on 30 November 1982. It was forwarded without comment by the Board of Directors on 30 December 1982 to the President, the Committee on Energy and Natural Resources of the Senate, and the Speaker of the House of Representatives.

As the new fiscal year began, my Office coordinated its internal financial audit with the annual audit being performed by the outside accounting firm of Peat, Marwick, Mitchell & Co. This resulted in my selection of travel and relocation expenses and employee advance accounts as an area of concentration. Our complete report, "Fiscal Year 1982 Travel and Relocation Expenses and Employee Advance Accounts", has been provided to this Subcommittee. It is a detailed review of accounts, vouchers, and payments and was designed to discover any instances of fraud, waste and abuse in what are especially sensitive areas of discretionary reimbursements.

The Auditor's Certificate for the Corporation's 1982 audit by Peat, Marwick, Mitchell & Co. is published on page 25 of the 1982 Annual Report of the Corporation. Their management letter, dated 3 December 1982, states that "we did not identify any condition which we believe to be a material weakness in internal accounting control" but goes on to observe several conditions which they believed should be noted.

In the Spring of 1983, my Office completed a survey of industry's perception of the U.S. Synthetic Fuels Corporation during the First and Second Solicitations. This Survey was intended as a tool, under independent auspices, to bring to the Corporation's attention non-attributive comments of project sponsors to help management evaluate the effectiveness of its dealings with sponsors and others and thus improve its way of doing business in future solicitations.

This Survey was not analytical in nature and contained no findings and recommendations by the Inspector General. The industry consensus was that the Corporation got off to a slow start, has made substantial progress, and is functioning reasonably well in the face of unusual "Washington-oriented" handicaps not found in a typical private sector corporation. Industry felt that the managment's learning curve had produced a sense of corporate maturity which would continue to develop in the future.

As the above summary indicates, my Office has looked into a variety of administrative areas. As a result, certain improvements in operations have been made and some savings realized. More important, the Corporation has initiated steps to improve its administration. There is room for reasonable improvement and my staff will continue, through specific audits and inspections, to seek to impact positively upon the overall operations of the U.S. Synthetic Fuels Corporation.

One unusual element which impacted adversely upon the economy and efficiency of the U.S. Synthetic Fuels Corporation should be mentioned here. That is the uncertainty of leadership which prevailed for the first 15 months following the establishment of the Corporation. The Corporation was formed slowly under the stewardship of a recess appointment Board of Directors, all of whom departed the scene by 20 January 1981. It was not until late in 1981 that the Corporation had a quorum of new, Senate confirmed Directors and until August 1982 that it had a full Board of seven Directors. This divides the Corporation's history into three separate management periods: the early management, the transition period, and the present management. The present management inherited difficulties frm the earlier period, which did not reflect good economy and efficiency. In short, the Corporation suffered a bad start. Therefore, the present management has had to spend an inordinate amount of time addressing these problems and answering to critics for its predecessor's actions.

The above comments are in response to the Subcommittee's request concerning administrative matters and administrative expenses of the Corporation. Indeed, some of these themes may have slowed the Corporation in terms of narrowing the distance to be travelled before its mission is accomplished. However, I think it is important to note here that the largest sums of taxpayer's money to be at risk will be those sums (up to $13.2 billion budgeted at this time) committed to financial assistance for the synthetic fuels projects. Most of the effort of my staff is dedicated to oversight of the long and complicated solicitation process, negotiations, term sheets, loan guarantee and price guarantee documents, and financial agreements. Based on this scrutiny, it is my observation that the present management and Board of Directors are exercising appropriate caution and prudence in arriving at financial assistance agreements and that the Corporation is likely to have better agreements because of it.

Senator **COHEN**. This hearing is going to stand adjourned until Friday the 29th, at 9:30 a.m., and on Friday the hearing will be in room 628 of the Dirksen Senate Office Building.

The subcommittee will now stand adjourned. Thank you.

[Whereupon, at 3:30 p.m., the subcommittee was adjourned, to reconvene at 9:30 a.m., Friday, July 29, 1983.]

OVERSIGHT OF THE MANAGEMENT OF THE U.S. SYNTHETIC FUELS CORPORATION

FRIDAY, JULY 29, 1983

U.S. SENATE,
SUBCOMMITTEE ON OVERSIGHT
OF GOVERNMENT MANAGEMENT,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, D.C.

The subcommittee met, at 9:41 a.m., in room SD-628, Dirksen Senate Office Building, Hon. William S. Cohen (chairman of the subcommittee) presiding.

Present: Senators Cohen, Rudman, and Levin.

OPENING STATEMENT OF SENATOR COHEN

Senator COHEN. The hearing will come to order. I apologize to the gentlemen for being late here this morning.

Today, the Oversight of Government Management Subcommittee is holding its second day of hearings on the management of the Synthetic Fuels Corporation.

The Synthetic Fuels Corporation is a federally funded public corporation which functions like an investment bank. Created to foster the development of a domestic synfuels industry, the Corporation is governed by a seven-member Board of Directors who are appointed by the President and confirmed by the Senate.

Congress charged the Board with the responsibility of deciding which synthetic fuels projects are worthy of Federal assistance through purchase agreements price and loan guarantees, and joint ventures. At risk are billions of Federal dollars—potentially as much as $88 billion if Congress approves the second phase of the Corporation's operations.

The subcommittee is examining whether or not the Board has effectively carried out its statutory responsibilities. There are disturbing indications that the Board of Directors is so polarized that its ability to function has been impaired. Certain Directors, for example, abstained from voting on both procedural and substantive matters during the May meeting of the Board.

Additional evidence of serious problems emerged at the subcommittee's hearing earlier this week. An Inspector General survey, conducted between December 1981 and December 1982, revealed industry's concerns about the Corporation's communications and decisionmaking. Virtually all the industry representatives interviewed for the survey criticized the Corporation for being too slow in making decisions.

Some have even expressed doubt about that Corporation's commitment to developing a synthetic fuels capability in this country.

An outside consultant assigned to the Corporation testified that he identified a serious communications void at the Board level, particularly between the outside and inside directors. The consultant's findings, in many respects, parallel the criticisms expressed in the IG's industry survey.

The consultant made several specific recommendations for solving the communications problems—recommendations that do not appear to have been fully considered or implemented.

The implications of this communications gap are troubling. How can the Board make informed and prudent decisions on synfuels projects and on corporate policies if its members cannot work well together?

Other serious questions raised earlier this week concern the Corporation's administrative expenses, its procurement practices, and its ethical standards. These issues will be explored further with our witnesses today.

On Wednesday, we heard from the Board's two full-time directors, the SFC inspector general, and Robert Coughlan, the consultant who studied the board's communications. Today, I look forward to hearing the views of the Corporation's outside directors, as well as testimony from Donald Thibeau who serves as the liaison between the full-time and part-time directors.

I hope that these hearings will produce positive changes in the operation of the Corporation so that our Nation may move expeditiously toward the goal of energy self-sufficiency.

Now our first witness this morning is Donald Thibeau, the executive assistant to the Chairman of the Synthetic Fuels Corporation. Mr. Thibeau is testifying today pursuant to a subpena. The subcommittee is pleased that he is coming forth to testify at my request. Mr. Thibeau, would you please stand so I might administer the oath to you.

[Witness sworn.]

TESTIMONY OF DONALD THIBEAU, EXECUTIVE ASSISTANT TO THE CHAIRMAN, U.S. SYNTHETIC FUELS CORPORATION

Senator COHEN. Mr. Thibeau, do you have an opening statement that you would like to read?

Mr. THIBEAU. I have given a statement to staff, Senator, and I have no other remarks at this time.

Senator COHEN. First, Mr. Thibeau, let me express my personal thanks, and I believe the thanks of the entire subcommittee, for your appearance here today. As I indicated during my introduction of you, you are here under legal process, as it should be, in your situation. I might point out for the benefit of those who are here that Mr. Thibeau is not subject to civil service protection. You are in fact working for a publicly funded Corporation, and you have carried out your responsibilities, in my judgment, based on what I have read today and what I have heard in the last meeting of this subcommittee, in an exemplary fashion. I want to commend you for the way in which you conducted yourself in that capacity.

Mr. THIBEAU. Thank you, Senator.

Senator COHEN. Mr. Thibeau, what types of functions do you perform in your capacity as liaison between the Directors and the Chairman?

Mr. THIBEAU. My principal function is to act on the Chairman's behalf to facilitate the communications between the management, the inside Directors of the Corporation, and the outside Directors, those part-time Directors in other parts of the country.

Senator COHEN. If I were an outside Director and I had some concerns about the operations, flow of information, or other aspects of the Corporation, should I go to—whom should I go to talk to about it?

Mr. THIBEAU. Senator, it would depend on the nature of your concerns. I think that principally the informal concerns, the mechanical concerns, if you will, would probably come through my office.

However, you would, as an outside Director, have access to the general counsel of the Corporation and other officers as the subject matter would dictate.

Senator COHEN. Have any of the outside Directors ever come to you with an expression of concern about flow of information, participation, communication, things of that sort?

Mr. THIBEAU. Yes, sir.

Senator COHEN. Who were they?

Mr. THIBEAU. I think it's fair to say that at different times, all the Directors have expressed to some degree or another concerns about the quality of communications between the Board and the Corporation. Largely, those concerns have been constructive in nature. And I have, in my capacity, attempted to pass those concerns on to the Chairman and to other affected officers in the Corporation.

Senator COHEN. Is it fair to say, then, that so-called "outside Directors" have tried to make some positive contributions to improving the operations of the Corporation.

Mr. THIBEAU. I think that's a good statement.

Senator COHEN. Are you familiar with the report prepared by Mr. Coughlan, who testified before the subcommittee on Wednesday of this week?

Mr. THIBEAU. Yes, sir.

Senator COHEN. In fact, you were in the room, as I recall, during the course of that testimony.

Mr. THIBEAU. Yes, sir.

Senator COHEN. Were you interviewed by Mr. Coughlan?

Mr. THIBEAU. Yes, sir.

Senator COHEN. Do the comments attributed to the board members in the Coughlan report in your judgment resemble comments Board members have made to you in your capacity as liaison between the Board members and the management?

Mr. THIBEAU. Yes, sir.

Senator COHEN. Do you think the Coughlan report is a fair assessment of the views of the outside Board members?

Mr. THIBEAU. Yes, sir.

Senator COHEN. What are some of the particular concerns that the directors have expressed to you which you characterized as communication problems within the Corporation?

Mr. THIBEAU. Well, Senator, let me first say you have four Directors behind me, so it may be better to let them speak for themselves. But I think in a general nature, the communication concerns voiced by the outside director range from a mechanical level of being given too much information, to too little. The other concerns that the outside directors have raised have been about the quality of communication among the seven Directors themselves.

Senator COHEN. I am going to yield for a moment to Senator Rudman, who has to leave and then come back. Senator Rudman, do you have any questions of Mr. Thibeau? I recall you were concerned about a communication that existed at a specific time in New York.

Senator RUDMAN. Thank you, Mr. Chairman; I intend to leave for another hearing of the full committee and return as soon as I can. Mr. Thibeau, were you in the hearing room downstairs a couple days ago when we had that hearing?

Mr. THIBEAU. Yes, I was.

Senator RUDMAN. Were you there when they asked a number of questions of the President of the company, Mr. Schroeder?

Mr. THIBEAU. Yes, sir.

Senator RUDMAN. Do you recall my questions as to a particular conversation that took place in New York?

Mr. THIBEAU. Yes, sir.

Senator RUDMAN. Were you a witness to those conversations?

Mr. THIBEAU. Yes, sir.

Senator RUDMAN. Was my characterization of the conversations correct?

Mr. THIBEAU. I am not sure that I recall your characterization.

Senator RUDMAN. In terms of the issues that were discussed, characterizing the conversations as discussing certain issues that Mr. Masson and Mr. Schroeder discussed.

Mr. THIBEAU. I think my recollection of Mr. Schroeder's testimony Wednesday generally conforms to my own recollection.

Senator RUDMAN. And that the conversations on those issues did in fact take place?

Mr. THIBEAU. Yes.

Senator RUDMAN. I will yield at this point and either make up some questions for the record or for some other witnesses. I did want to get that on the record.

Senator COHEN. I will go back in some detail about that particular event. What was the date of that conversation? Do you recall?

Mr. THIBEAU. The date of the conversation that you are referring to, Senator, was on March 23 and 24 of this year.

Senator COHEN. Where was that?

Mr. THIBEAU. That was in a hotel room in New York that was reserved for the use of the Corporation.

Senator COHEN. What time of the evening were you in that particular room?

Mr. THIBEAU. Well, I was in the room for most of the evening. The conversation that you are referring to took place—began late the evening of the 23d and ended the early morning of the 24th.

Senator COHEN. So it began some time at 10 or 11 that evening and carried over into the early morning?

Mr. THIBEAU. That's correct.

Senator **Cohen**. You were present that entire time?

Mr. **Thibeau**. That's correct.

Senator **Cohen**. Who were the other people that were present at that time?

Mr. **Thibeau**. The other two people present during the time frame you were referring to were Mr. Schroeder and Mr. Masson, members of our Board.

Senator **Cohen**. Were there any other members there?

Mr. **Thibeau**. No, sir; there was no one else present.

Senator **Cohen**. Now, did the directors discuss business that would be brought up the following day at the official meeting?

Mr. **Thibeau**. Yes, sir.

Senator **Cohen**. Specifically did they discuss a plan? When I say they, Mr. Schroeder and Mr. Masson?

Mr. **Thibeau**. Correct.

Senator **Cohen**. Did they discuss a plan to amend the system of by-laws for establishing a new position of Vice President Corporate of Synthetic Fuels Corporation?

Mr. **Thibeau**. Yes, sir.

Senator **Cohen**. What did Mr. Schroeder tell Mr. Masson concerning that plan?

Mr. **Thibeau**. As I recall, Mr. Schroeder made known his disappointment that the plan had not received, in his view, a fair hearing from the other directors and that he asked Mr. Masson to support his proposals.

Senator **Cohen**. Did they discuss the details of that proposal at any length?

Mr. **Thibeau**. They did.

Senator **Cohen**. Did Mr. Masson know the details from what you could hear and/or observe?

Mr. **Thibeau**. Mr. Masson indicated that he was unable to be present during a meeting of the compensation committee of which he is a member and Mr. Schroeder provided him with some background material about the proposal to bring him up to date on the different facets of the proposal.

Senator **Cohen**. Did Mr. Masson go over those details of management at that time?

Mr. **Thibeau**. As I recall, he glanced at that paperwork Mr. Schroeder provided.

Senator **Cohen**. And what happened following the solicitation for support for that particular plan?

Mr. **Thibeau**. Well, what happened was that, discussion back and forth between Mr. Masson and Mr. Schroeder that ensued for about 2 hours. They discussed a variety of topics.

Senator **Cohen**. Did Mr. Schroeder, during the course of that conversation, recommend that Masson should support him the next day in that vote?

Mr. **Thibeau**. He did.

Senator **Cohen**. Did Mr. Masson indicate he would support the plan?

Mr. **Thibeau**. He did.

Senator **Cohen**. Did he and Mr. Schroeder discuss any project that might be considered by the Board the next day?

Mr. **Thibeau**. Yes, they did. They discussed——

Senator COHEN. Any particular project?

Mr. THIBEAU. They discussed one particular project and that was the Big Horn project.

Senator COHEN. Had the Corporation staff, to your knowledge, made any recommendation concerning the Big Horn project?

Mr. THIBEAU. The staff makes recommendations on all projects before the Corporation prior to each Board meeting.

Senator COHEN. What was the recommendation of the staff with respect to Big Horn?

Mr. THIBEAU. The recommendation of the staff, with respect to that particular project, was that it would not be advanced in the Corporation's proceedings for consideration.

Senator COHEN. Did Mr. Masson suggest or recommend that Mr. Schroeder support the Big Horn project?

Mr. THIBEAU. Mr. Masson indicated that he had reviewed the staff recommendation for the Big Horn project. He indicated that he found fault with some of the staff recommendations and that he had various concerns about the staff recommendations that he wished to take up at the Board meeting the next day.

Senator COHEN. Did Mr. Masson and Mr. Schroeder discuss other matters?

Mr. THIBEAU. Yes, they did.

Senator COHEN. Did either of the Directors discuss making any calls to any companies?

Mr. THIBEAU. Yes, they did.

Senator COHEN. Would you tell us the details of that particular conversation?

Mr. THIBEAU. Mr. Masson indicated that he was interested in a project or projects in the Southwest area of the country, that were considered by the Mobil Land Development Corp. Mr. Masson asked Mr. Schroeder if he could be of some assistance in securing more information about the development plans by that corporation.

Senator COHEN. Did Mr. Masson specifically ask Mr. Schroeder to make a call on his behalf to promote projects that Mr. Masson had an interest in?

Mr. THIBEAU. Mr. Masson's request to Mr. Schroeder was that Mr. Schroeder intercede with acquaintances of his in the Mobil Land Development Corp. to secure more information about projects that corporation was considering. He specifically asked Mr. Schroeder to help him identify particular projects and particular personnel within the Mobil Land Development Corp. that might be in a position to further develop the information that Mr. Masson was in need of for his business.

Senator COHEN. Mr. Thibeau, was it your impression that evening that a deal had been struck or made between the two men?

Mr. THIBEAU. Senator, it was my impression that Mr. Schroeder and Mr. Masson came to an understanding. How you would characterize that understanding——

Senator COHEN. How did you characterize it?

Mr. THIBEAU. Well, as I have said to the Inspector General, and to the other Board members that have asked me about this particular matter, is that my participation in that conversation was strictly limited to that of bystander. My impression of that conversation was that Mr. Schroeder and Mr. Masson had come tc an understanding. The judgment of that understanding, be it right, wrong, terrible, indifferent, I have left to others in the Corporation and other people in positions of responsibility here.

Senator COHEN. When you say they came to an understanding, in your judgment, the understanding was that Mr. Masson would support Mr. Schroeder's proposal the next day, and, in return, Mr. Schroeder was going to make a phone call or calls on behalf of Mr. Masson; isn't that what you mean by understanding?

Mr. THIBEAU. Yes, Senator.

Senator RUDMAN. Would you yield for one moment at this point?

Senator COHEN. I yield to the Senator.

Senator RUDMAN. Mr. Thibeau, you have just stated that you would leave the characterization of what that all amounted to in terms of whether it was good or bad to others. Yet you were sufficiently concerned about what you heard, which is not simply pass it off and not report it, but in fact you did call that to someone's attention; did you not?

Mr. THIBEAU. Yes, Senator.

Senator RUDMAN. Why did you call it to someone's attention? You hear a lot of conversations between people which obviously you pay no attention to whatsoever, or look at either objectively or with slight interest; but this particular conversation you felt that, to be responsible, you had to report to the person you worked for.

Mr. THIBEAU. That's correct.

Senator RUDMAN. The Chairman of the Corporation.

Mr. THIBEAU. That's correct, Senator.

Senator RUDMAN. Tell us why.

Mr. THIBEAU. The reason that I reported it to the Chairman was twofold. The environment that surrounded the discussion of that particular issue, among the Directors, was highly charged. The feelings on both sides of the issue had been made evident to the Chairman, as well as to other people involved in the decisionmaking. I felt that it was proper staff work to bring any substantive conversation regarding that matter to the Chairman's attention as soon as possible. The other aspect of it was that I believe that there was, at the minimum, potential for embarrassment or misunderstanding among all Board members, and felt that it would be a curative act to bring to the Chairman's attention as soon as possible, prior to the discussion.

Senator RUDMAN. Let me follow that up a bit. Had the conversations strictly been between Mr. Masson, and Mr. Schroeder, regarding the Big Horn project, had it ended there, the discussion between the Director and the President, would you have felt that a necessity to call that to anyone's attention?

Mr. THIBEAU. In the normal course of my work for the Chairman, whenever a Director makes a concern known to me, in my judgment, it's my—part of my job and my responsibility to bring that to the attention of the Chairman at the proper time.

Senator RUDMAN. Yes, but you were not a participant in this particular conversation, so it wasn't being made known to you. This was a conversation between two people in which you were an observer and a listener. You happened to be there; the conversations were not directed to you?

Mr. THIBEAU. That's correct.

Senator **Rudman**. So let me go back a bit again. Well, let me *state the question* possibly another way. Had there not been the followup to a conversation, which then got into policy of the Corporation in terms of what Mr. Schroeder was trying to do here, be it right or wrong, in terms of reorganization of the Corporation, followed up by a request which Mr. Masson thought was perfectly proper—Mr. Schroeder makes a telephone call for him in relation to Mr. Masson's private business—did that particular part of the conversation give you concern?

Mr. **Thibeau**. Yes, it did, sir.

Senator **Rudman**. You used the word embarrassment. That's why I am asking the question.

Mr. **Thibeau**. It did give me concern. I used the word embarrassment because, in an effort to preserve the collegiality of the Board, I have attempted to facilitate the communication that has gone on between outside and inside directors. In order to facilitate that conversation, I attempt to resolve matters before they are, before the Board is in public session. This particular matter was scheduled to go before the Board in public session the following morning.

Senator **Rudman**. From what you heard, I take it, although you are being, I think, very cautious and properly so in your characterization of your observations and your actions as well as your feelings. But, as I understand it, from your testimony here this morning, and from reading material furnished by the staff, furnished by the department, you saw a situation here where a request was being made for support on official action by the president of the corporation connected with—and I won't use the word "in return with"—but connected with a request by an outside Director for the President of this Corporation, which is, in fact, a public Corporation, to do something, however innocent, that could inure to the benefit of the outside Director in his private business. Does that sum it up?

Mr. **Thibeau**. That sums it up. Senator, my concerns were manifest in this way. I brought the matter to the attention of the Chairman, as soon as possible. As a part of my normal course of duties in describing the entirety of the action that the Board took during that Board meeting, I discussed the matter with an outside director that was not present at the Board meeting. I discussed my concerns about this particular conversation with that director. It was on the advice of that Director that I discussed the matter, and as soon as possible again, with the Chairman, reiterating my concern, and adding to that concern, the concern expressed by that Director.

Senator **Rudman**. For the record, Mr. Chairman, I am going to go to another hearing and be right back. It just seems to me, I want to make it very clear, I am not here implying any impropriety that was deliberate on the part of either Mr. Masson or Mr. Schroeder. I think it demonstrated a certain insensitivity as to how you conduct yourself when you are in a public corporation supported by taxpayer dollars as opposed to a private corporation.

The fact of the matter is, Mr. Thibeau, if this conversation took place in a private corporation, a Fortune 500 Corporation, and you were the executive assistant to a member of that corporation, that probably might not trouble you at all.

The fact that this is a public corporation, involving public policy, I think changes the relationships of what people do for each other in terms of their private pursuits. Would you agree with that statement?

Mr. THIBEAU. I would.

Senator COHEN. Thank you, Senator Rudman. Before yielding to Senator Levin, I would like to follow with a couple of questions. When did you bring the substance of this meeting to the attention of the Chairman of the Board?

Mr. THIBEAU. I brought the fact of this meeting to the attention of the Chairman of the Board as soon as possible. That was the morning of the Board meeting.

Senator COHEN. Before the Board meeting occurred?

Mr. THIBEAU. That's correct, Senator.

Senator COHEN. What did you say at that time?

Mr. THIBEAU. I said to the Chairman that I recommended that he discuss with Mr. Masson the events that were to take place that day and arranged for Mr. Masson and Mr. Noble to meet prior to the convening of the open session of the Board.

Senator COHEN. Did you review at that time the nature of the conversation that had taken place the night before?

Mr. THIBEAU. No, sir. I attempted to contact the Chairman, as soon as possible, after the termination of the Board meeting in Washington and Atlanta. I was unable to contact the Chairman, so I continued on, as I described, to discuss the matter and my concerns with the next Board member, that I discussed the entire Board meeting with.

Senator COHEN. Who was that Board member? Was that Mr. Wilkins?

Mr. THIBEAU. That's correct.

Senator COHEN. What did Mr. Wilkins say to you?

Mr. THIBEAU. Mr. Wilkins questioned me very carefully about all aspects of the Board meeting. In particular, this conversation and the actions that arose from this conversation. Mr. Wilkins advised me to immediately return to Washington and bring the matter to the attention of the Chairman.

Senator COHEN. Did you do that?

Mr. THIBEAU. I did.

Senator COHEN. When was that?

Mr. THIBEAU. I returned from Wichita on Tuesday and spoke with the chairman the morning of Wednesday.

Senator COHEN. The 30th?

Mr. THIBEAU. That's correct.

Senator COHEN. What did you say at that time?

Mr. THIBEAU. I told the Chairman in the strongest possible terms that Mr. Wilkins had questions and concerns about the New York Board meeting. I suggested to the Chairman that he contact Mr. Wilkins as soon as possible, and that he give some thought to the matter.

Senator COHEN. Did you at that time advise the Chairman of the Board as to the nature of the conversation that had taken place the night prior to the Board meeting?

Mr. THIBEAU. I did.

Senator COHEN. What was the Chairman's response to you?

Mr. THIBEAU. The Chairman listened carefully. He asked several questions. Then advised me to take no further action, and that he would follow the matter.

Senator COHEN. That would be on March 30, 1983, of this year?

Mr. THIBEAU. That's correct.

Senator COHEN. What further action, to your knowledge, was taken by the Chairman following that conversation?

Mr. THIBEAU. I am not exactly sure what the sequence of actions was. It's my understanding, from the Chairman, that he discussed the matter with the participants, referred to other Board members, and came to his own determinations about what was the appropriate followup.

Senator COHEN. Were you contacted by anyone else concerning that event the night before the Board meeting?

Mr. THIBEAU. That's correct.

Senator COHEN. Who contacted you?

Mr. THIBEAU. Upon the advice of the Chairman, I took no further action. However, whenever an SFC Board member initiated conversation about this matter, I responded fully and carefully. So I have discussed the matter with other Board members at their initiation, as well as with the Inspector General's office of the Corporation.

Senator COHEN. Who were the other Board members that contacted you?

Mr. THIBEAU. The other Board members that contacted me were Mr. Monks, Mr. Wilkins, again, and Mr. Carter.

Senator COHEN. Did Mr. Schroeder contact you concerning the conversation?

Mr. THIBEAU. He did.

Senator COHEN. What was the nature of the conversation you had?

Mr. THIBEAU. Mr. Schroeder made it clear to me that the matter was a sensitive one, that his recollection was somewhat different than mine, and the conclusion that he came to was far different than my own.

Senator COHEN. Were you questioned as to your veracity or your truthfulness in your version of what had taken place that evening?

Mr. THIBEAU. I was questioned very carefully by all the Directors as well as the Inspector General.

Senator COHEN. Did you in fact offer to take a polygraph test on this matter?

Mr. THIBEAU. Senator, I have pledged my fullest cooperation to the Chairman of the Board of the Corporation first, as well as to the Inspector General, as well as to the subcommittee. If a polygraph test is required, I would like to do so.

Senator COHEN. That's not what I am asking. Did you not, in fact in order to substantiate your version of what had occurred, offer to take a polygraph test in the past?

Mr. THIBEAU. That's correct.

Senator COHEN. To your knowledge, was any action taken with respect to this conversation prior to the Chairman notifying the Inspector General, conducting the investigation, any official action?

Mr. THIBEAU. The Chairman discussed the matter with other Board members. I am not aware of any other official action.

Senator COHEN. Do you recall when the Inspector General was asked to investigate the matter?

Mr. THIBEAU. My contact with the Inspector General came at the initiation of that office. And my understanding is that it was some time after the Chairman of the Corporation discussed it with the General Counsel of the Corporation as well as the Inspector General.

Senator COHEN. Did you in fact have a conversation or interview with the Deputy Inspector General, Mr. Gambino?

Mr. THIBEAU. That's correct.

Senator COHEN. Was a transcript made of that particular interview conducted with you?

Mr. THIBEAU. That's correct.

Senator COHEN. Have you seen the transcript and made any corrections that needed to be made?

Mr. THIBEAU. I have seen the transcript. There were few corrections, if any.

Senator COHEN. To the best of your knowledge, does that represent the full recollection that you had at the time that you gave that interview with Mr. Gambino of the events that took place on the evening of March 23?

Mr. THIBEAU. That does.

Senator COHEN. That's all I have for Mr. Thibeau. Senator Levin.

Senator LEVIN. Thank you, Mr. Chairman. Good morning. Mr. Thibeau, you testified that during that conversation, Mr. Masson would support Mr. Schroeder on certain organization changes. Mr. Schroeder called somebody at Mobil Land Co., as I understand your testimony. Both of those things—they both occurred during that meeting at a motel room on the 23d?

Mr. THIBEAU. That's correct.

Senator LEVIN. In what way were they connected?

Mr. THIBEAU. They were connected in time.

Senator LEVIN. Other than that?

Mr. THIBEAU. Mr. Schroeder made known his concerns about this issue. In response to that, Mr. Masson replied to that issue, and, as I said before, requested Mr. Schroeder's assistance on another matter, the matter of the Mobil Land Development Corp.

Senator LEVIN. In what way were they connected?

Mr. THIBEAU. They were the——

Senator LEVIN. You say they reached an understanding?

Mr. THIBEAU. That's correct.

Senator LEVIN. What were the words used to reach the understanding?

Mr. THIBEAU. I don't recall the exact words, Senator.

Senator LEVIN. What were they approximately?

Mr. THIBEAU. The approximate words were, Mr. Schroeder asked Mr. Masson for his support on the resolution; Mr. Schroeder discussed the concerns that he had about the environment that the resolution was being considered in, and made known his need for Mr. Masson's support; and Mr. Masson replied by agreeing with Mr. Schroeder's conception that the consideration of this matter was problematic. Mr. Masson said that he understood what Mr. Schroeder was saying, that he was supportive. He also then asked

Mr. Schroeder to contact Mobil Land Co. on his behalf. So in general, Senator, there were two sides of a dialog.

Senator LEVIN. Did they occur at the same time? Were they interrelated?

Mr. THIBEAU. They occurred at the same time.

Senator LEVIN. Or did one occur first and then second?

Mr. THIBEAU. Mr. Schroeder began by describing the circumstances of the proposal and making the request. Mr. Masson responded and they continued for some time.

Senator LEVIN. Were the two subjects intertwined?

Mr. THIBEAU. I am not sure what you mean by that, Senator.

Senator LEVIN. Were they talking about both subjects at the same time?

Mr. THIBEAU. Yes.

Senator LEVIN. Was the support of Mr. Masson for Mr. Schroeder's position and Mr. Schroeder's willingness to make the calls for Mr. Masson conditioned on each other?

Mr. THIBEAU. I do not recall if that was made explicit. However, it was my clear understanding that Mr. Masson and Mr. Schroeder reached an understanding about the entirety of the conversation that evening.

Senator LEVIN. Was there any conversation to the effect that I can do this if you can do that?

Mr. THIBEAU. I don't recall those words being used, Senator.

Senator LEVIN. What were the words used closest to that, which you do recall?

Mr. THIBEAU. The words closest to that was Mr. Schroeder indicating to Mr. Masson that he needed his help, and Mr. Masson responding that he was inclined to support it.

Senator LEVIN. That he what?

Mr. THIBEAU. That he was inclined to support him and that he also needed Mr. Schroeder's help on another matter.

Senator LEVIN. Before he stated that he needed Mr. Schroeder's help, he stated that he was inclined to support Mr. Schroeder?

Mr. THIBEAU. Mr. Masson indicated his sympathy with Mr. Schroeder's description of the problems associated with the consideration of the proposal.

Senator LEVIN. Before he stated that he needed Mr. Schroeder's help?

Mr. THIBEAU. Yes, Senator.

Senator LEVIN. Did you leave that conversation believing that one agreement was conditional upon the other, or that they had both said they would do something for the other without there being one conditioned on the other?

Mr. THIBEAU. I left that conversation feeling that an understanding had been reached.

Senator LEVIN. Was the nature of that understanding that one action was conditioned upon the other action or that both actions would be taken independently?

Mr. THIBEAU. May I consult with my counsel for a moment, Senator?

Senator LEVIN. Sure.

Mr. THIBEAU. Thank you, Senator. Senator, as I said before, it was my clear impression Mr. Schroeder and Mr. Masson reached an understanding. They each asked certain things of the other, and that it was clear to Mr. Masson, to Mr. Schroeder and to myself that it was their intent to follow up. To make good on what they told each other they would do.

Senator LEVIN. Two different kinds of conversations. By the way, I am not judging the ethics; I am just simply saying there's a difference between two different kinds of conversation. One is, I will do something if you will do something. The other conversation is, I need your help on something, and you give an answer to that question, yes or no. And then you say, by the way, I need your help on something. And I give you an answer, not connected, not related, except in time; not conditional, one upon the other, necessarily, but happening in the same conversation.

Now, without judging the ethics of either, by the way, they are different. Which was it?

Mr. THIBEAU. I think that anyone in the room would have come to the perception that it was more the former than the latter.

Senator LEVIN. That they were conditioned upon each other?

Mr. THIBEAU. Yes.

Senator LEVIN. That's all the questions I have. I know how hard it is to go back in time and try to reconstruct conversations for everybody. I just want to tell you that it is important that people do come forward and be willing to express their recollection to the best of their ability. It's an exercise of conscience, as well as responding to the subpena. I know that the committee and Congress are grateful whenever citizens do the best that they can to reconstruct a conversation, as difficult as that may be to their own position. Congress generally has taken steps to protect those people who have shown a willingness to share their recollections to the best of their ability to make sure that there is no retaliation against them.

Mr. THIBEAU. Thank you, Senator.

Senator COHEN. Thank you, Senator Levin. Just to go back, perhaps one final point, Mr. Thibeau. To put this conversation in context, it might have assumed different proportions with different dimensions if it was simply an isolated conversation between the President of the Corporation and one member of the Board of Directors. But you were privy to a lot of information about the Corporation by virtue of your position. You were also privy to a lot of expressed anxiety, antagonism, frustration, and simple disagreement about the policies of the Corporation itself that had been going on for some time; is that not correct?

Mr. THIBEAU. That's correct, Senator. I think it's important to point out that the reason that I have stated that it was my clear impression that Mr. Masson and Mr. Schroeder, reached an understanding, was that after Mr. Masson and Mr. Schroeder left, Mr. Masson returned to the room and asked for my opinion of that understanding. Now, whether or not that understanding, as I have said before, was good or bad, up or down or indifferent, I did not, at the time, know. Right now, I am not quite so certain. What I tried to do, throughout the recollections of this incident, is to simply report what I saw and what I heard. As I communicated to your staff earlier, I had expressed my intention to decline your invitation to respond to questions on this subject matter, because I in no way wanted to jeopardize directly or indirectly the good names of any Directors.

I feel that very strongly, and that, I believe, is the basis of your subpena.

So I have pledged my cooperation to you and to the Chairman of the Board and will continue to do so.

Senator COHEN. Mr. Thibeau, you are in a very difficult position, and I appreciate it. It's one that I don't envy, but I do admire the way in which you try to conduct yourself. Frankly, you have got a question of almost a division of loyalty being placed upon you: Loyalty to the Chairman of the Corporation; you also have a sense of loyalty to the Board of Directors who also, under statute, have a moral and legal obligation to see to it that the policy of that Corporation is carried out efficiently, effectively, in the best interests of the public, meaning the citizens of this country. It has been that conflict that has evolved, it seems to me, within the Board itself, that has created some of the problems that we are here discussing today.

So I want to reiterate what I said to you earlier this morning, and I want to commend you for the way in which you conducted yourself under very difficult circumstances. And to reiterate what Senator Levin has suggested, this committee has had situations for a number of years, since we have been on the committee together, in which we have been required to examine the operation of a number of agencies, and we have had situations where people have come forward to express their honest, candid opinions about what was being managed or mismanaged. We have tried to protect them against retaliation for doing what their conscience required of them. I just want to reiterate that to you, that we are going to continue to follow the operation of the Corporation beyond this hearing, well beyond this hearing, to make sure that there is no retaliation for doing what we considered to be the right thing, being candid, to the best of your ability. I can't make that point strongly enough.

I would like to go back and just followup one point you just made. You said Mr. Masson, after the conversation terminated some time in the early morning of March 24 ——

Mr. THIBEAU. That's correct.

Senator COHEN [continuing]. Came back to you and asked you what you thought of the arrangement, the understanding?

Mr. THIBEAU. That's correct. At the time I responded to Mr. Masson that I wasn't sure. And coincident with that conversation, Mr. Wilkins called from the west coast, inquiring what the state of play was, or how the preparations for the Board meeting were proceeding. Mr. Wilkins and Mr. Masson then had a conversation on the phone. Shortly after that conversation, Mr. Masson retired. Then, as I said before, the first thing in the morning, at the earliest opportunity, I strongly recommended to the chairman that he and Mr. Masson meet, and they did.

Senator COHEN. Again, coming back to my first point; that conversation has to be placed in the context, or within the context of friction, the kind of divisions that had developed amongst the Board members. It was in that context that the importance of this particular meeting really emerged in your own mind. Had it been an isolated case of two Directors getting together, I assume over cocktails or drinks in the room below; is that correct?

Mr. **Thibeau**. The reason for having this kind of an informal meeting was one solution, if you will, to the contentiousness that existed among Board members. The idea of having an opportunity for Board members to get together informally, to discuss matters that they were concerned with, seemed to me, and to the Chairman, to be a good one. That was the genesis of this meeting.

If you are asking for the context of this conversation, I agree with Mr. Schroeder's characterization that the state of Board relations at the time were contentious.

Senator **Cohen**. I think hypercontentious was the word used at the last hearing.

Mr. **Thibeau**. Hypercontentious.

Senator **Levin**. Contentious now.

Senator **Cohen**. Mr. Thibeau, thank you again for coming forward and testifying.

Mr. **Thibeau**. Thank you, Senator.

[Mr. Thibeau's prepared statement follows:]

PREPARED STATEMENT OF DON THIBEAU, EXECUTIVE ASSISTANT TO THE CHAIRMAN, U.S. SYNTHETIC FUELS CORPORATION

Mr. Chairman, Members of the Subcommittee: Thank you for the opportunity to testify before this Subcommittee. The following responds to your letter of July 20, 1983:

(1) As Executive Assistant to the Chairman and Board of Directors, I am responsible for two elements of the Corporation's work—(i) liason with the Executive Branch of the United States Government and (ii) liason with the Directors of the U.S. Synthetic Fuels Corporation (SFC) on behalf of the Chairman of the Board—and other duties as assigned by the Chairman.

(2) The adequacy of internal and external communications has been the subject of continuing discussion and concern within the Corporation and among its key constituences. That there are problems is evident by the fact that members of the Board as well as other interested parties have offered suggestions and solutions to various "communications" concerns. My assessment is that attempts to impose SFC "communications" have met with limited success because they have focused on the mechanics of transmitting information. I firmly believe that the referred to "communications" problems of the Corporation are metaphor for a lack of clear consensus and goal-oriented collegiality among members of the SFC Board.

(3) That there are problems, be they of perception and/or of substance, is evident by the public record of the SFC Board meetings. My role as staff 'facilitator' of Board-level communication, without 'line' responsibility, necessarily makes my involvement with managerial and administrative practices one step removed. I therefore can add little to the comments of the Corporation's Directors on these matters.

I will be pleased to provide detailed responses to any questions posed by the Subcommittee. Thank you Mr. Chairman.

Senator **Cohen**. Our final witnesses this morning are four directors of the Synthetic Fuels Corporation: Mr. Monks, Mr. Carter, Mr. Masson, Mr. Wilkins. I appreciate you coming before the committee. Please come forward and raise your right hand.

[Witnesses sworn.]

TESTIMONY OF JOHN B. CARTER, JR., MILTON M. MASSON, JR., ROBERT A. G. MONKS, AND C. HOWARD WILKINS, JR., MEMBERS, BOARD OF DIRECTORS, SYNTHETIC FUELS CORPORATION

Senator **Cohen**. I guess we might begin. Mr. Wilkins, when were you nominated to the Board of Directors.

Mr. **Wilkins**. Roughly a year ago, October.

Senator **Cohen**. How long is your term?

Mr. **Wilkins**. How long is my term? Seven years. Am I the oldest? Five years? Five years.

Senator **Cohen**. Mr. Masson?

Mr. **Masson**. August of 1982.

Senator **Cohen**. You were appointed; your term runs until when?

Mr. **Masson**. August of 1983.

Senator **Cohen**. Mr. Carter.

Mr. **Carter**. August of 1982, Senator, for 2 years.

Senator **Cohen**. Mr. Monks.

Mr. **Monks**. September of 1981, till September of 1984.

Senator **Cohen**. Perhaps we could begin, gentlemen. Most of you were not here during the course of the hearings on Wednesday. Have any of you had a chance to review the transcript of the proceedings?

Mr. **Carter**. Yes.

Mr. **Wilkins**. Yes.

Mr. **Masson**. Yes; very, very briefly.

Senator **Cohen**. Mr. Monks?

Mr. **Monks**. Yes.

Senator **Cohen**. What we are trying to do is review the nature of the operation of the Synthetic Fuels Corporation. During the course of the last hearing, we attempted to explore the background, the genesis of the Corporation, the sense of urgency that the Congress felt for the need to produce synthetic fuels, the sense of mission the Corporation would have, and place that congressional mandate within the context of the Board's operation, its efficiency, its responsibilities. We did not explore the nature of the Board's function, which I hope to do this morning, a question about who is in charge of what, who is responsible for what, and perhaps what legislative changes are necessary or thought to be made to improve the efficiency. But we explored the question of the commitment of this Corporation to the congressional mandate. Frankly it was not this committee, or subcommittee, looking at that commitment, but going back from the very inception of the commitment to the appointment of the Chairman and the President and you as members of the Board of Directors, as to whether there was, in fact, a commitment to carry out that congressional mandate. It was questioned by a number of business leaders, industry leaders in the press, the Wall Street Journal, New York Times, various subcommittees. The Appropriations Committee, I think, issued a fairly strong statement concerning the efficiencies in the operation of the Corporation.

We heard testimony from Mr. Coughlan on how he was required to make an analysis of the nature of the problems of the Corporation. I would like to do, gentlemen, if I could—I know you all have limited amount of time that you can be here this morning—but I might start and just say, perhaps you can give the committee some description of the evolution of the nature of the problems. Mr. Wilkins, it was suggested during the course of Wednesday's hearing that perhaps there is one member, mainly, Mr. Monks, who has been sort of a thorn in everybody's side, that the other members weren't as concerned or as contentious as Mr. Monks about the nature of the operations. Your name has surfaced on several occasions during the course of the hearing on Wednesday and here today as being someone who was concerned about what was taking place. So I guess my question is, what has been your experience in the operation of the Corporation? What are your general criticisms or recommendations? Why don't we begin there.

When did you become concerned about what was taking place? Let's put it that way.

Mr. **Wilkins**. Oh, about a month after I joined up.

Senator **Cohen**. Why was that, sir?

Mr. **Wilkins**. Mr. Monks, simply, is taller than and speaks louder than anyone else on the Board, which does not mean that he is a single Director with a single motive or a single concern. He simply has roped off by choice from one end of the spectrum. I don't think there's any question about the commitment of anybody on the Board. It is sincere and complete and has been since day one, including the inside Directors.

Our concerns began when there seemed to be a gulf between the inside versus the outside people, and having sat on a number of boards, being, at least feeling responsible, for the formulation of policy, as the statute requires, although the statute is a bit confusing in some areas, it's pretty specific in most areas. We felt, perhaps, that the directors should be more involved in the evolution of, and formulation of many of these management policies.

What concerned us the most was that there seemed to be no policy. It was not a matter of disagreeing with the policy so much as an attempt being made to formulate a plan as in a strategic plan, or a game plan, in general. So over a period of time, one grants—with some patience, because it is a new Corporation, with an entirely unknown and unprecedented mandate, in nearly physically impossible things to carry out—one must grant considerable patience to the inside management to work out many of these heretofore not-put-together types of procedures and plans. So after a number of months, we began to become very impatient, and that's when I think some of our differences of opinion became more pronounced.

Senator **Cohen**. Did it become more pronounced about September of 1982; do you recall?

Mr. **Wilkins**. Well, I recall a Board meeting at that time that—let's see; September, October; yes, about that time, I would say. That's when we became very concerned about the quality of communication; not the quantity. Directors are mostly concerned about specific dilemmas or a specific threshold, specific crossroad type of decisions coming up, as well as the ongoing functioning and the direction of the Corporation, sorting through stacks and stacks of material. That's when the communication—I guess it was about November, actually, when we actually required, as a group, that a communication plan be developed and delivered and discussed.

Senator **Cohen**. What was the response to that request?

Mr. **Wilkins**. The response was the Coughlan work.

Senator **Cohen**. So, in other words, you, and other members of the Board, had expressed a desire to have some sort of plan about having better "communications" among the Board members so that you could in your good conscience carry out your responsibilities as a member of the Board of Directors.

Mr. WILKINS. Not only that, Senator, but there seemed at that time to be an unawareness of the state of communications that existed between the Corporation and its constituency. Both externally, in the way of industry, and, as you might say, internally to the close neighborhood of the District of Columbia, as we are accountable to a number of groups.

Senator COHEN. So you joined with those requesting Mr. Coughlan or someone to conduct a survey, interview, whatever, to recommend a game plan so as to facilitate and carry out the mission of the Corporation, essentially.

Mr. WILKINS. Yes, sir.

Senator COHEN. You were interviewed by Mr. Coughlan.

Mr. WILKINS. Yes, sir.

Senator COHEN. You saw the report which he filed with the Chairman which I assume was distributed to the Board of Directors.

Mr. WILKINS. Yes, sir.

Senator COHEN. Would you generally agree that he characterized the nature of the complaints, observations, criticisms, recommendations, in this report to the Board, to the management.

Mr. WILKINS. Yes, sir; those were accurate.

Senator COHEN. Did you anticipate that there would be some action taken on the so-called comments of the Board at one of your meetings?

Mr. WILKINS. Yes, sir.

Senator COHEN. Was there any action taken?

Mr. WILKINS. None.

Senator COHEN. Was that a continuing source of frustration to you?

Mr. WILKINS. That is correct, Senator.

Senator COHEN. Now, following the meeting, I guess it would have been in Tulsa, in January of 1983—was that Tulsa or Houston?

Mr. WILKINS. Houston.

Senator COHEN. At that meeting, the Coughlan report was not discussed as I understand it.

Mr. WILKINS. Not to my knowledge.

Senator COHEN. You said the fact that it wasn't discussed was a source of frustration to you and some other members of the Board of Directors.

Mr. WILKINS. That's my understanding.

Senator COHEN. Following that period of time, your next meeting was where: New York?

Mr. WILKINS. Right; February. Did we have a meeting in February?

Mr. MONKS. Washington. Telephone; telephone meeting.

Senator COHEN. You don't recall that.

Mr. WILKINS. No, sir; I don't remember the one after that. Was it in Washington, in February?

Mr. CARTER. Washington.

Mr. WILKINS. Washington.

Senator **Cohen**. Now, at our hearing on Wednesday, I discussed with Chairman Noble a letter which had been given to him during a meeting of two Directors in May of this year, a letter which had your initials at the bottom, as well as those initials of Mr. Carter and those of Mr. Monks. Were you present at that meeting in which that letter was delivered to Mr. Noble?

Mr. **Wilkins**. Yes, sir.

Senator **Cohen**. Did that letter contain your specific recommendation as to the course of action you felt the Chairman should take with respect to the items contained therein.

Mr. **Wilkins**. It did.

Senator **Cohen**. Did you have a chance to discuss the contents of that letter with Mr. Carter before it was handed to Mr. Noble?

Mr. **Wilkins**. Yes.

Senator **Cohen**. Did Mr. Carter agree with the contents of that letter?

Mr. **Wilkins**. It was my understanding that he did.

Senator **Cohen**. And did you convey that understanding to Mr. Monks?

Mr. **Wilkins**. I believe I did.

Senator **Cohen**. So that when you and Mr. Monks went to Mr. Noble, that document, in fact, represented what you felt had to be done in order to satisfy your own concerns?

Mr. **Wilkins**. Yes, sir.

Senator **Cohen**. Do you recall the contents of that letter essentially, Mr. Wilkins? Let me backtrack. Why did you feel it necessary to go see Mr. Noble?

Mr. **Wilkins**. Well, we were meeting anyway in Tulsa for a briefing on a number of subjects. I believe this was prior to the Board meeting, 2 weeks prior to the Tulsa Board meeting, and it had been about a month and a half, I think, since the New York Board meeting, and I was concerned that a number of questions simply were not being confronted.

Senator **Cohen**. Were you concerned about the meetings between Mr. Masson and Mr. Schroeder?

Mr. **Wilkins**. Among other things, yes. Again, mostly from the standpoint of just simply confronting it. Getting it on or getting it off. The business of the Corporation is such that these things just can't hang around, you know, on the table somewhere. You just can't inventory these items. So it was an attempt at least, on the part of three of us, to urge the Chairman to move ahead or take some action or——

Senator **Cohen**. Well, let me just review the nature of that action. On the one hand, you requested an investigation of the meeting that occurred between Mr. Masson and Mr. Schroeder; and, No. 2, to make suitable arrangements for termination of the services of the incumbent President of the Synthetic Fuels Corporation before the May 26 Board meeting. That was a very specific recommendation.

Mr. **Wilkins**. That was very specific, Senator.

Senator **Cohen**. Three, to appoint a committee consisting of yourself and Mr. Bowden to bring up to the Board for prompt consideration and approval at a scheduled meeting in June of 1983 a new organizational plan for the Synthetic Fuels Corporation.

Mr. **Wilkins**. Yes.

Senator **Cohen**. During the course of the hearing on Wednesday, it was suggested that because your signature did not appear on that document, perhaps it shouldn't be given credence or the credibility that it would have had had your signature been on it. Was the absence of your signature, in your judgment, any indication of a lack of intense commitment to these specific points?

Mr. **Wilkins**. Absolutely not, Senator. It was our intention to leave our signatures off of the letter.

Senator **Cohen**. Why was that, sir?

Mr. **Wilkins**. Simply because I was increasingly reluctant to indicate to the Chairman without making a, quote, Federal case of some sort, to pay full attention to what the three of us had, at least, generally agreed was a matter of some serious concern.

Senator **Cohen**. So, in other words——

Mr. Wilkins We had already talked verbally about it; now it was time to put something on a piece of paper.

Senator **Cohen**. That was to, No. 1, reflect the intensity of your concern with the three members without, on the other hand, having it go into the files, making it a matter of official declaration so that it would become a matter of public knowledge, I assume.

Mr. **Wilkins**. Well, I suppose that would be the next gradient, yes.

Senator **Cohen**. You started off. You said you had a verbal conversation. When was that verbal conversation concerning these items? When did that take place?

Mr. **Wilkins**. Two weeks prior to the Tulsa meeting.

Senator **Cohen**. And how did that take place? On the phone?

Mr. **Wilkins**. No; Mr. Carter and I sat with Mr. Noble and chatted with him for several hours about our thoughts.

Senator **Cohen**. Did you ever have a private conversation with the Chairman prior to that meeting, dealing with the same subject matter?

Mr. **Wilkins**. Several.

Senator **Cohen**. Were there any conference calls?

Mr. **Wilkins**. Not on that item.

Senator **Cohen**. Do you know what, if any, opinion Mr. Victor Thompson and other members of the Board of Directors had with respect to these items? If you don't——

Mr. **Wilkins**. No, I really couldn't speak for him.

Senator **Cohen**. What was the response 2 weeks earlier to your concerns that you and Mr. Carter expressed to Mr. Noble?

Mr. **Wilkins**. The response from the chairman?

Senator **Cohen**. Chairman.

Mr. **Wilkins**. The chairman, I think, could say he was concerned about our concern, did not agree with a number of our concerns.

Senator **Cohen**. Took no action concerning your concerns.

Mr. **Wilkins**. Not within the several weeks between our burgled chat and our Tulsa get-together. He may well have, but I am not aware of it.

Senator **Cohen**. The next step was this letter that you hand-delivered to Mr. Noble personally.

Mr. **Wilkins**. Yes, sir.

Senator **Cohen**. Just so there is no misunderstanding, that did in fact reflect exactly what your recommendation was, and the fact that your signature was not on it didn't in any way diminish the intensity of your conviction about what had to be done.

Mr. **Wilkins**. Absolutely not, sir.

Senator **Cohen**. Mr. Carter, could I turn to you, and ask you the same questions whether or not your initials did appear on this document?

Mr. **Carter**. Yes, sir.

Senator **Cohen**. Had you discussed the contents of that document with Mr. Wilkins prior to that meeting?

Mr. **Carter**. Yes, sir.

Senator **Cohen**. Did you give your general consent to the nature of the three items contained therein?

Mr. **Carter**. Yes, sir. I would like to make one thing clear, though. After reading your testimony the other day of Mr. Noble, I think it comes up in his testimony that he called me about this letter, and I stated that I had not seen the letter as of that date. It had been discussed with me, the substance I agreed with, and he brought up a point or something about me not signing the letter, or I hadn't said I signed the letter; and I probably told Ed in the best of my knowledge, I don't sign anything until I read it and see it. But the substance of it I certainly agree with.

Senator **Cohen**. The fact of the matter is, you did talk with Mr. Wilkins about it.

Mr. **Carter**. Yes.

Senator **Cohen**. And agree with the context of the three recommendations?

Mr. **Carter**. Yes, sir. I thought the letter was very straightforward, might have been a little tough, but I certainly agreed with the conclusions.

Senator **Rudman**. I want to interject one question here. That is we ought to get away from who did what to whom and when.

Mr. **Carter**. Yes.

Senator **Rudman**. The fact of the matter is, that memorandum which has initials of the three gentlemen on it, Mr. Wilkins, Mr. Carter and Mr. Monks, does represent, as of the time it was written, your views about what ought to be done at this Corporation; is that correct?

Mr. **Carter**. Yes. The only explanation I made there, I didn't want Mr. Noble's testimony to look misleading, because it wasn't.

Senator **Rudman**. I know that. I wasn't critical of what you said, Mr. Carter. It's just that we have gone over this with three or four witnesses now. What we are really trying to find out is what's going on down there. That memorandum does kind of say what's going on down there. The fact that you signed it or did not sign it, is not important, it's now in the record and it will appear in the record as what Mr. Carter, Wilkins, and Monks thought ought to be done at the Synthetic Fuels Corporation; is that an accurate statement, Mr. Monks?

Mr. **Monks**. Then and now.

Senator **Rudman**. Mr. Carter?

Mr. **Carter**. Yes, sir.

Senator **Rudman**. Then and now?

Mr. **Carter**. Yes.

Senator **Rudman**. Mr. Wilkins.

Mr. **Wilkins**. Yes.

Senator **Rudman**. Fine; I think we have that behind us, Mr. Chairman.

Senator **Cohen**. During the course of the meeting last Wednesday, it was suggested because the Coughlan report recommended that the seven of you get together informally to discuss the nature of communications, some sort of communications plan, and somehow try to resolve the split, that apparently, had evolved with respect to either the quality or the competency or the way in which the Corporation was being managed, that that was, in the judgment of the President of the Corporation, illegal, based upon the advice of counsel. Gentlemen, could I ask you whether or not during the course of your service on the Board of Directors, you have gotten together on an informal basis at any time?

Mr. Carter?

Mr. **Carter**. You are talking about all seven of us?

Senator **Cohen**. Well, more than four. More than three; let's put it that way.

Mr. **Carter**. Well, we did in Tulsa, but that was an informal meeting and it was announced as such, where we couldn't reach any conclusion as I was told by counsel. Every time we got close to it, they blew the whistle.

Senator **Cohen**. Basically, what Mr. Coughlan was saying, let's take these seven very bright, energized, capable people, who have executive experience, and let's put them all together for 2 days on an informal basis and see if they can't resolve the problems that have erupted. Isn't that what Coughlan said?

Mr. **Carter**. Yes, sir, Senator, I am very naive about Washington. I think that law, if there is such a law, is kind of ridiculous.

Senator **Cohen**. You mean it would prevent that?

Mr. **Carter**. Yes, sir, that's what I am told.

Senator **Rudman**. Let me interject here, I am not sure there is such a law. I am having research made now. I think advice given by former counsel was very restrictive and probably erroneous in several cases.

Mr. **Carter**. I hope so.

Senator **Cohen**. But the question is, whether it was erroneous or correct, did you, as a matter of practice get together from time to time, the three of you, to discuss on an informal basis, matters that would come before the Corporation?

Mr. **Wilkins**. Yes, sir.

Senator **Cohen**. Mr. Wilkins, you say you have on a number of occasions.

Mr. **Wilkins**. Sure.

Senator **Cohen**. Sure?

Mr. **Wilkins**. Sure.

Senator **Cohen**. Mr. Masson?

Mr. **Masson**. Yes.

Senator **Cohen**. Mr. Carter?

Mr. **Carter**. Yes.

Senator **Cohen**. Mr. Monks?

Mr. **Monks**. Many times.

Senator **COHEN**. So with the notion that somehow the Coughlan report was a step toward a vote on the illegality, in your judgment, it also contradicted your experience.

Mr. **WILKINS**. The Coughlan report, I understand Senator, was made out of respect for the possibility it would occur.

Senator **COHEN**. And it also included an option that in the event it was decided that the Sunshine Act prevents you from getting together on an informal basis and saying here's one option to present to the committees.

Mr. **WILKINS**. Yes.

Senator **COHEN**. Following the letter that was delivered to the Chairman, what happened, Mr. Wilkins? Were any changes made consistent with the recommendation, in that letter?

Mr. **WILKINS**. As I recall, the meeting was—the specific New York matter was referred to the IG. Then nothing else happened, to my recollection, until we arrived for the Tulsa Board meeting. We wanted to have the matter discussed. We felt it was a matter of some concern to the full Board; that, and other matters which had not been handled for some months. So at the Tulsa Board meeting we were able to resolve some of our differences.

Senator **COHEN**. At the Tulsa Board meeting, there were, as I recall, some abstentions; is that correct.

Mr. **WILKINS**. That's correct.

Senator **COHEN**. Why did you abstain from voting on several matters?

Mr. **WILKINS**. The concerns which I believed to be fundamental at that time had not been addressed for a number of months. I could no longer, in conscience, vote on any matters, substantive or procedural, without having those concerns addressed.

Senator **COHEN**. Did you ever have or deliver a letter of your own to Mr. Noble?

Mr. **WILKINS**. Yes, sir.

Senator **COHEN**. Concerning the operation of the Corporation?

Mr. **WILKINS**. I have on a number of occasions.

Senator **COHEN**. When was the most recent? Did you do so at that time you handed the typed formal letter from you and Mr. Carter and Mr. Monks?

Mr. **WILKINS**. Yes, sir.

Senator **COHEN**. What was the nature of that particular letter?

Mr. **WILKINS**. It was just a two-liner.

Senator **COHEN**. Do you want to tell us what the two lines said?

Mr. **WILKINS**. Something to the effect that we need to get on the matter now.

Senator **COHEN**. Senator Levin.

Senator **LEVIN**. Thank you, Mr. Chairman.

In the memo, which has been referred to as the Coughlan memo, there's a statement, a conclusion he reached, that serious communications void at the Board level, exists. That was described the other day to us as a serious communication gap. Is that something we should be concerned about in Congress, the fact that the Board was so contentious, hypercontentious at that time? First, Mr. Wilkins, should the American people and the Congress care whether or not there's a contentious or hypercontentious Board of the Synthetic Fuels Corporation?

Mr. **Wilkins**. Well, certainly, I think it should, Senator. It's a question though of what you expect out of the Corporation. Certainly the Congress and the people have a right to know. Certainly we have an obligation to answer any sincere and forthright question put to us.

Senator **Levin**. What difference does it make, in terms of serving the Corporation's activities, whether it's a hypercontentious Board or a smoothly functioning Board?

Mr. **Wilkins**. I think there's a substantial difference in terms of how fast or how smoothly we can move.

At the same time, I should repeat that it has been an unprecedented move to put together a Corporation of this kind, with this type of authority, and with this particular purpose; unprecedented. It has been difficult to arrive at—with unanimity of decisions based on some matters internally. Now, I don't regard that to be of any particular strife, because, as I mentioned before, the subdirectors are all single-minded and all very strong-willed, and of considerable experience. So there are several different viewpoints that could be taken.

Senator **Levin**. Is that any justification——

Mr. **Wilkins**. From the startup time.

Senator **Levin**. Is that any justification for the fact we have seven strong willed people, with what's going on here?

Mr. **Wilkins**. In my opinion, no, sir.

Senator **Levin**. Mr. Masson, is this something we should worry about? We have got a hypercontentious Board, and we have got a divided Board that has got all these problems in communications gaps and conflict. Is that something we should worry about?

Mr. **Masson**. Senator, I would submit to you that it should be something that you should be concerned and worried about, to the extent that it either has or may in the future prevent the Corporation from carrying out the mandates of the Energy Security Act. That is, in the final analysis, what the Corporation should be measured by.

Senator **Levin**. Has all this contention made it less likely that we are going to reach the goals we have set for that Corporation?

Mr. **Masson**. Up until this point, I would have to say, no, sir.

Senator **Levin**. Mr. Carter, has all this hypercontention had any impact on the work of this Corporation?

Mr. **Carter**. Yes, sir; it has to have some effect on it. There's no doubt about that. The management of this Corporation, Mr. Schroeder and Mr. Noble today, a group of very independent thinking people, I don't think they recognized it to the degree they should have at this time. I think the communications could have been much better. I came on this Board a year later than Mr. Monks and Mr. Wilkins and Mr. Thompson.

At the first meeting that I went to, which I think was in September of last year, I got the impression these fellows had been ignored. Last year I tried to reserve my judgment for some time but it became apparent that they had been ignored and they just weren't being handled right to get all that information. That's what built up this breach more than anything else. All of us are trying to get to the same place.

Senator **Levin**. Thank you. Mr. Monks. Does this hypercontention concern us? Does this affect the output of the Corporation?

Mr. **Monks**. Yes and yes.

Senator **Levin**. We now can get back to Mr. Masson, before I have to leave, to give you an opportunity—and I am sure others want to know too—to tell what happened at the meeting of March 23, at the meeting between you and Mr. Schroeder.

Mr. **Masson**. Excuse me, sir; was that a question to tell you the general layout of the meeting?

Senator **Levin**. Not general; a very specific account, relative to the subject at hand; relative to the allegation there was a deal or an understanding reached. Exactly who said what? And give it to us in chronological order; would you?

Mr. **Masson**. I will do the best I can, sir. I may have trouble recalling words I do not remember specifically. I do remember the tone and essentially what was mentioned. There were a number of things discussed. Upon arriving at my hotel I went directly to the desk; there had been a number of messages that had been left for me. Afterwards, we sat down and probably had one of the best discussions I have ever had with Mr. Schroeder since I've been on the Board, regarding what was going to happen at a Board meeting. I have tried a number of times to meet with Vic Schroeder and Ed Noble prior to Board meetings since they are there full time in charge of the day-to-day operations, and I am a part-time, outside Director. So, for approximately 1½ or 2 hours, we discussed a myriad of subjects, of which the three that have been specifically mentioned were indeed discussed.

I have a totally different understanding, recall, of some of the meetings with them, and I would like to explain them as part of this hearing.

First of all, I had been concerned, in fact one of my main concerns since being on the Board, that small projects are not being given sufficient consideration. I'm not suggesting that they are as important as the larger sponsors, but the act itself does say we do give some consideration to smaller projects. I think we have seen several small projects, Edwards Engineering and GeoKinetics. Basically, these are projects all under $12 million, which is significantly smaller than $2 billion. It appears to me—I might be wrong—that at times our staff and Board seemed to summarily dismiss these projects simply because they were very small. I have made several attempts to ask that we weren't doing that.

Upon arriving at the hotel, before I went to this meeting, I had an envelope delivered to me, which I now understand the other Board members or most of them had received, from one of the sponsors of the Big Horn project. I had not been familiar with the details of this project prior to that, except I knew that it was one of the projects listed in my briefing book, which was to be recommended for not passing. In this letter, the project sponsor stated that he had clearly met all the requirements that he had been requested by our staff with the exception of one small item. He requested a 2-week or 4-week extension, a minimal amount of time. The letter led me to believe our staff said we could do that. Therefore, I had a concern we weren't giving it proper consideration. I discussed this concern that night with Mr. Schroeder. The next morning I discussed it with Mr. Noble and a couple of others.

I will take these issues one at a time. First, at the Board meeting, in the closed session, we had a briefing on the Big Horn project by Leonard Axelrod, the Technical Vice President, whom I have a great deal of respect for. Very few times have I disagreed with Mr. Axelrod. Mr. Axelrod made a profound statement right down the line about how that letter was incorrect. In fact, the project had trouble meeting the maturity criteria requirements from a technological standpoint. I then voted against the project on Mr. Axelrod's recommendation. We summarily dismissed the project which I think is appropriate, although I did have and still do have a basic concern for the smaller projects.

At the same time in that meeting with Mr. Schroeder, the major issue, which probably took an hour of our time, was the new reorganization in terms of the additional Vice President. Mr. Schroeder had a concern, which I had known, that we proceed with this. There was a briefing held on this matter which I had missed, and I really didn't know why we needed it or if we needed it. Since coming on the Board in August, a lot of the policies had been made and were in place when I came on the Board. However, I had, at least a few times, had discussions about personnel. The fact that I had not placed a lot of emphasis on organizational procedures is not that I did not take any interest in it, but I have felt that the Chairman or the President was in charge of the day-to-day operations. Since I've been on the Board, we've had very few occasions to vote for or against hiring anyone. So I told Vic that night that if he felt he needed this additional person, and it was for the purposes that he explained to me that night, that I would have no problem in supporting it as long as he and Ed Noble supported it, also that we have strong staff recommendation from Jimmie Bowden, which I explained that night.

The next morning I specifically asked Mr. Thibeau to see Mr. Noble. Mr. Thibeau claims he asked me, but as I recall I asked him. I had in fact intended to see the Chairman anyway, so I arranged to see the Chairman before breakfast, where just the two of us sat and talked at some length about that issue. Mr. Noble felt that we needed it. But he wasn't 100 percent convinced and said that he had different reasons for wanting it than those I heard the evening before.

Subsequently, in the public session of the Board meeting, I asked Mr. Bowden if he thought we needed the new Vice President. He said we needed him primarily as a support for outside Board members in effecting communication. At this point I personally didn't feel like I needed another staff person to help me, and I indicated such, and the matter was put on hold.

Finally, as far as the Mobil Land deal is concerned, that's the matter I feel has been blown totally out of perspective. I can understand why those facts could be said because I did indeed ask Vic Schroeder—not at that meeting for the first time by the way—but at a previous occasion—possibly it was a previous Board meeting or some other time—if he in fact knew anyone at Mobil Land Corp. because I had heard that they bought approximately 2,000 acres of raw land in the desert near Phoenix, Ariz. I would like to confirm that. He said earlier as a matter of fact, I have a personal friend of long standing who is in charge of Mobil Land Development. I said, great, would you call him or put me in touch with him, because I would like to know. The night of our meeting I very clearly reminded Vic. I said, "Vic, by the way, would you please follow through and call the guy and see if they have land in Arizona?"

Subsequent to that, at some time, 2 or 3 weeks later, he wrote me a memo, indicating that here's a man's name at Mobil Land; he is expecting your call; you can call him and ask him. Since that time, I have not had either the time or the interest to follow through; this has been several months, and it has not, quite frankly, gentlemen, been a high priority on my list, certainly not high enough priority to make a deal or to deal my vote. I think it is harmful to my integrity to even insinuate I would do something like that.

That is pretty much a summation of what happened in that room during the course of the 2 hours as it pertains only to the three issues mentioned. Of course, there were a number of other events that were discussed, and I couldn't tell you right now in what order they happened; except that the first one was, in fact, a long discussion about the reorganization of the Corporation.

Senator **Levin**. A brief question before I have to leave.

Mr. **Masson**. Yes, sir.

Senator **Levin**. You at no time asked him that night whether or not he would help you land a job or work with Mobil Land?

Mr. **Masson**. Absolutely not, sir. I wasn't even looking for a job with Mobil Land. In fact, if they had bought the land, the only thing I could ever probably get out of it is something if they developed it to sell off to homebuilders. Then I might be able to bid for some of the civil or construction staking. That is what I would have the capabilities of providing.

Senator **Levin**. Why would you want to know whether they bought the land or owned the land?

Mr. **Masson**. Because, as an engineer in Phoenix, Ariz., one of the things I have to do in order to keep my business going is to know what's going on. Someone who has bought 2,000 acres of the desert in Phoenix, Ariz., could very much influence how that 2,000 acres is being developed; and what's going on is this information I would like to have. As a matter of fact, this information, I am sure, if I hadn't been so lazy after I found out Vic Schroeder had a personal friend there, I could have looked in the phone book and found someone at Mobil, and found out that way.

Senator **Levin**. Wouldn't it have been a lot easier than asking Schroeder to do it and then asking him to do it again, simply to go to the courthouse or newspaper and find out whether they owned land? It was important enough to raise twice, to remind him; wasn't it?

Mr. **Masson**. I guess at that time it must have been.

Senator **Levin**. You are saying that subject came up that night. Did it come up before you reached a conclusion on the conversation about the reorganization?

Mr. **Masson**. No, sir. That was the first thing we talked about that night.

Senator **Levin**. That evening you talked about this reorganization of the bylaws and adding the Vice President. Did that conversation conclude before you reminded him about his call, though?

Mr. **Masson**. First of all, to be quite candid with you, Senator, the answer is yes.

Senator **Levin**. The answer is what?

Mr. **Masson**. Yes, we finished that conversation. As I remember, before we talked about anything else, we got through with the discussion on the organization. I said, fine; I have heard all I need to hear here. As far as I am concerned, if you have the support of the staff and Ed Noble, that's the kind of thing I can vote for. I did not recall, from then on, what we discussed, in the order when we did it or how we did it from that point on, but we did finish with that discussion. It is at that point in time we were much more informal, talking about other items of less importance.

Senator **Levin**. There's no doubt in your mind that the conversation about the by-laws and Vice President was over and complete before you reminded him about the phone call?

Mr. **Masson**. Absolutely.

Senator **Levin**. There's no doubt in your mind you did not ask him for any help in connection with Mobil; for any recommendation from Mobil you solely wanted to ask him and did ask him to find out from Mobil whether or not they owned some property in the desert?

Mr. **Masson**. Either that or to get me in touch with somebody who can tell me the answer to that question.

Senator **Levin**. The sole purpose of the introduction—you made clear to Schroeder that this was the sole purpose, for you to find out whether or not they owned some property?

Mr. **Masson**. Yes, sir.

Senator **Levin**. Not to make any recommendations of you.

Mr. **Masson**. I had absolutely no reason for him to recommend me other than here's a guy I know; would you give him some information and talk to him?

Senator **Levin**. Therefore you did not ask him to make a recommendation.

Mr. **Masson**. No, sir.

Senator **Cohen**. What was the nature of the letter he wrote on your behalf?

Mr. **Masson**. Quite frankly, I have heard about the letter; I have not seen it.

Senator **Levin**. Could we get that memo that he sent you for the record? [1]

Mr. **Masson**. Senator, we will have to get that from Vic Schroeder. I thought you might want it and I asked my secretary for it. I couldn't find it. I am sure Mr. Schroeder will have a copy of it.

Senator **Cohen**. Mr. Masson, you heard the testimony this morning of Mr. Thibeau; were you here to listen to that?

Mr. **Masson**. Yes, sir.

Senator **Cohen**. Why did you go back after the meeting and ask him about the arrangement? What caused you to go back and speak to him about it?

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[1] See p. 204.

Mr. MASSON. There's two questions. First of all, I don't even remember asking him about the arrangement. As far as I am concerned there was no arrangement except between Vic and I to vote for that particular issue, which was a concern of all the Board members. It seemed to me the watershed issue of which a lot of this controversy had centered around, which I don't think that issue in itself deserves, but it became a point where it seemed like everything was focusing. I went back to ask Don, who as he said has been a very good intermediary between the various members of the Board, and when one member wants to know what the other is saying, usually Don Thibeau is the one that coordinates that information. So I went back specifically to find out specifically how some of the other Board members felt in that meeting.

Senator COHEN. After you already made the commitment to support it, why would you go back and discuss it?

Mr. MASSON. I made a qualified commitment; I did not say I would vote for it.

Senator COHEN. Let me stop. You said you would vote for it if the Chairman of the Board, Mr. Noble, Mr. Schroeder and staff supported it.

Mr. MASSON. And everything else he said was true.

Senator COHEN. It had nothing to do with the other Board members. The question I have is why would you go back after having made that, quote, conditional commitment, and then say, what do the other people think about it? Is it a good deal or bad deal?

Mr. MASSON. We had a fair amount of discussion about the contentiousness or hypercontentiousness about the Board. I was quite frankly concerned about whether this was going to be a focal point or not. I would like to talk to several of the other Board members. He had already told me that there was some ill feeling about it. As a matter of fact, Howard Wilkens called while I was in Thibeau's room; I had about a 20-minute conversation with Howard, because I had missed the conversation at the compensation committee meeting in which he and Mr. Monks apparently had decided not to vote on this issue but to vote in favor of some raises. This was the first time I had discussed this with him.

I finished that conversation. Soon after that, I told Mr. Thibeau good night; I would like to meet with Mr. Noble and discuss it the next morning, which I did, and that was it.

Senator COHEN. The question was, Why would you do that if you hadn't talked to the other members of the Board of Directors?

Mr. MASSON. Senator, this is all hindsight. I don't know exactly why one does something one night and then "goes back to Thibeau's room," but I believe I said earlier that is why I made that commitment. Basically, I had not been as concerned about the organization at the level that some of my colleagues had. I have shared some of those concerns with them privately and publicly and with Noble and Schroeder, but I hadn't had nearly the level of concern they had. I told Howard, Vic, and Ed, that as long as Vic and Ed are managing the Corporation, the day-to-day and I am an outside Board member, in terms of hiring and firing preferences and the day-to-day running of the organization, unless I have a compelling need or a reason to think they are really messing it up, I am not going to get involved, particularly at that level, in trying to slow down the process of the organization.

Senator COHEN. You are not concerned about the hiring and firing practices. Didn't the statute require the Board of Directors to set the officers, for example?

Mr. MASSON. Let me correct that: I shouldn't say policy; I am talking about hiring and firing the specific individuals.

Senator COHEN. About the creation of specific offices you ought to be concerned about; because that's your responsibility under the statute.

Mr. MASSON. That's correct.

Senator COHEN. Let me switch to Mr. Wilkins, just a couple more questions for you. Have you ever described the way in which you have been treated as an outside Board Director as an ornament?

Mr. WILKINS. An ornament?

Senator COHEN. Ornamental.

Mr. WILKINS. As in Christmas trees?

Senator COHEN. That's exactly the expression.

Mr. WILKINS. I don't think anybody has ever referred to me as an ornament or have I referred to me as an ornament.

Senator COHEN. Did you ever make the statement you felt you were being treated ornamental to the Corporation?

Mr. WILKINS. I don't remember such a statement, Senator.

Senator COHEN. Did you ever have that feeling?

Mr. WILKINS. I have had various feelings; frankly that's a surprising question that you ask. I have to sort out my head on that. I certainly had the impression——

Senator COHEN. Excuse me; do you recall a telephone conversation with me? Would that help your recollection?

Mr. WILKINS. No. I don't remember using that particular word.

Senator COHEN. Well, I will let it stand that way; I wrote it down because it struck me.

Mr. WILKINS. OK. Well, there have been times, certainly, when our input has not been very important. That has been a matter of some concern to us. If we are charged, as we feel we are, with serious consideration of how the company is being run, and who is running it, and how they are running it. So I wouldn't disagree with the use of the word from time to time. I just don't remember using it specifically. I'm not sure I answered your question for you.

Senator COHEN. Do you believe the Board has adequate plans or strategies to follow, to carry out its mission?

Mr. WILKINS. Well, I think it's erratically evolving.

Senator COHEN. Hasn't it been one of your complaints that there has been no game plan as such that you could stick responsibilities in time frames, a measure of accountability as to whether or not the Corporation is carrying out its mission, is that a source of one of your complaints?

Mr. WILKINS. Absolutely; it's been certainly * * * [1] 8 or 10 weeks * * *. The demands on the Corporation and the schedule have in fact gone a long way toward pulling and massaging the Corporation in place, whether they wanted to be or not. The main majority of * * * that we've had is that outside Directors, even though they are outside, still have an enormous responsibility to discharge, and we or I have demanded answers or information that has not been made available until recently.

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[1] In this paragraph sections of the transcribers tape was garbled and this is indicated at the places the asterisks appear.

Senator COHEN. How recently?

Mr. WILKINS. Oh, in the last month and a half.

Senator COHEN. During the course of the hearing on Wednesday, I suggested that perhaps things have improved since the setting of these hearings. The President of the Corporation said that I was absolutely wrong. In your judgment, have some of the communications problems improved in the past month?

Mr. WILKINS. Certainly. Certainly they have. It's just wonderful.

Senator COHEN. Do you think there's any causal connection, in your judgment, as to whether or not the setting of hearings and calling of witnesses, the preparation of testimony, the dispersal of testimony before the committee has had a beneficial impact in terms of trying to improve the exchange of ideas and plans?

Mr. WILKINS. The thought's occurred to me, Senator. Certainly it's been very coincidental. But, I think, at the same time, the Chairman particularly has been very concerned about how best to resolve a continuing and increasing gulf or gap. So, for whatever reason, things are improving. I have been amazed that the Director—I noticed he mentioned, indicated after the last Board meeting that I particularly appreciate the candidness of the views expressed by himself and particularly the President, Mr. Schroeder, and other staff members, during that meeting, both in open and closed sessions. I felt there had been some improvement there, for whatever reasons I didn't really care. I just noticed a distinct improvement, and I wanted to validate it. I wanted him to know I appreciate it and I want to see more of it.

Senator COHEN. Do you think if things are the same as they are today with the recent experience of the Corporation you will be able to carry out the mission?

Mr. WILKINS. It depends on the mission. Again, this is just my personal opinion. We have developing and evolving strategies that we really take very seriously and spend a great deal of time on as to where we should put in more or less emphasis financially, technologically, and so forth. The production goal, I frankly see no way of meeting, unless we do some things in the lesser technologies such as heavy oil or tar sands which would be overloading, simply from the standpoint of production, meeting a production goal, when at least as important is diversity of technology and getting our feet wet in various other areas. So we are getting there. It's just that it's anybody else's opinion as to whether or not the slowness has been positive, because in many ways, the natural laws of arguments and differences of opinion make things move slower; maybe that's good, because the environment was not all that focused anyway as to which way to go.

Senator COHEN. Mr. Wilkins, one final question before I yield to Senator Rudman. An item appeared in the Energy Daily Report about a week or two ago suggesting that perhaps this was a personal vendetta on behalf of Mr. Monks to vent his particular positions. Based upon what I have heard today, you, Mr. Carter, Mr. Masson, and perhaps even other members of the Board of Directors, all at one point articulated the same kind of concerns. You indicated Mr. Monks is taller and perhaps a bit louder than the other members. Is it fair to say he has not been alone in the expression of that concern to management, the so-called, inside directors?

Mr. WILKINS. Absolutely, Senator.

Senator COHEN. Have you been just as intense as he has in the course of the past year in trying to achieve the kind of goals that are articulated in the Coughlan report?

Mr. WILKINS. I should like to think so.

Senator COHEN. Do you think so?

Mr. WILKINS. Yes, sir.

Senator COHEN. Mr. Monks, perhaps I should turn to you. Perhaps it ought to be stated on the record, that I am the person that recommended you for a position on the SFC Board.

Mr. MONKS. What is second place? A week in Philadelphia?

Senator COHEN. I would like to state for the record, that you are one of the brightest people I know and one of the most capable people I know. I should state that you have been a political supporter of mine, and I would hope you would continue to be. For the benefit of all the people who are here today, for the record, I would indicate if it were is only a question of Mr. Monks being unsatisfied with the operations of the Synfuels Board, my advice is and has been, and will continue to be that he simply ought to resign. To the extent that it's one person who challenges the operation of the Corporation, that's not my interest.

What I am interested in, as a member of the Senate, and as Chairman of the Oversight of Government Management Subcommittee, is that if in fact there is such a deep split, a permeation of dissent, criticism, frustration, that has spread to other members of the Board of Directors, which has the potential, if not the actuality of impairing the operations of that Corporation to carry out its mandate, then it is the responsibility of this Board and this subcommittee to be concerned. That is really what I want to explore today at some length.

Mr. Monks, before I begin, Senator Rudman, do you have any questions for the record?

Senator RUDMAN. Yes, I have a few questions, but I don't particularly care in what order they are asked.

Senator COHEN. Mr. Monks, let me stop here, because I think Mr. Wilkins and Mr. Carter do have planes to catch; is that correct, do you want to be excused?

Mr. CARTER. Not anymore, Senator; it's too late for that.

Senator COHEN. Mr. Monks, what is the history of your involvement with Synthetic Fuels? When were you appointed?

Mr. MONKS. I was appointed in September of 1981, Senator.

Senator COHEN. That's the date of your confirmation?

Mr. MONKS. Yes.

Senator COHEN. In your judgment, when did the trials begin with the Corporation; at what point in time?

Mr. MONKS. I think it was February 1982, I felt that—I should say that in September I moved to Washington, and began to work full-time on the Corporation, because I had just been able to retire as a result of merging a company and having someone else take over its position of leadership. In moving here, I began to devote all my time to the subject to see if I could make a contribution. About February, I felt I had at least understood the Energy Security Act. The first thing that any Board of Directors has to do, or has to insist that a management do, is to develop a strategic plan. There is no company, no organization of any size, to my knowledge, that ever could consider itself well directed if it doesn't periodically promulgate plans against which to evaluate its own progress. Not that managers or planners have any insight to the future, but planning is necessary as a discipline, necessary as a control process. But I began in February to pull together some of my own ideas, because the statute is an extraordinarily interesting and challenging document. It places tremendous responsibilities in the Directors and it gives the Directors a wonderful opportunity to deal with a real national problem. You have to be focused in order to do that. If you decide that you want to do it. I began those discussions, and I began to find that it was extremely difficult to have any response to my suggestions. So, over a long period of time, I continued to work and continued to try to participate as actively as I could.

So I would say February of 1982.

Senator COHEN. Did you submit a document for consideration by the inside Directors in terms of your ideas?

Mr. MONKS. The concept of inside Directors is not one in the statute, Senator. It's just arisen by virtue of the fact there was a relationship between a number of the principal people in the Corporation. The statute speaks of part-time and full-time Directors. Each of us, and in fact, Vic Schroeder and Vic Thompson are part-time Directors under the statute. Vic Schroeder is also elected President, but he's a part-time Director. The office of Chairman in the statute is full-time. I then addressed a memorandum to Mr. Schroeder, Mr. Noble and the then General Counsel in an effort to begin a kind of collegial dialog that in my experience within other companies brings decisions.

Senator COHEN. Was there any response?

Mr. MONKS. Some; nominal.

Senator COHEN. What was the next stage of concern to you? What happened after that?

Mr. MONKS. I think the first time in which I publicly cast a dissenting vote was in the matter of the Corporation's commitment to Tosco Petroleum. In that instance Mr. Thompson voted with me. Because there were only five Directors and four were needed under the statute for the majority, Mr. Thompson and my voting meant that action would not be taken by the majority. Mr. Thompson subsequently changed his vote. That was a matter on which reasonable people could have differed.

The next month we voted on the so-called third solicitation, and Mr. Noble refers to this in his testimony on Wednesday. I believe that was in July 1982. It was apparent to me that our solicitation process was rather lengthy. The joke of Groucho Marx about country clubs, if you remember Groucho said any club that would have him, he would not want to join. It became clear to me. We wouldn't want to give our money to any companies that win our solicitations. The best companies in the energy area, Exxon, Sohio, were involved in projects before the Synthetic Fuels Corporation, but they would not ask for any financial assistance from us. The people who are asking for financial assistance were their partners. Other great American energy companies, the largest, probably the best known, were involved in Synfuels, but they were not making application to us.

It was perfectly clear to me that the solicitation process was not a way by which we could induce the kind of people who we wanted, and we needed to take the leadership of these complex projects to involve themselves. I also felt then, and I feel now, that it is essential for this Corporation to move very quickly.

I am very proud of what the Congress and the President did in passing the statute, in trying to deal with a long-term problem, in trying to set up a mechanism so we weren't always responding to yesterday's problems, but we were looking forward to tomorrow's. But to do that, we still have to move rapidly; we just can't sit still and think events will stay in place. So I voted against that solicitation thinking there is a mechanism in the statute for us to proceed to the next level; that is, going to the chairman of the Senate Energy Committee, and to the Speaker of the House, tell them we have enough experience, which we did by that time, in my opinion, to know the kind of people who ought to be running these projects aren't getting involved in these solicitations. So I voted against that at that time and I spoke to that at the meeting, and I think the minutes are good of what I had to say.

The next difficulties became apparent in August. Mr. Wilkins and I, along with Mr. Thibeau and Mr. Schroeder, Mr. Noble, Admiral Mott and two or three highly qualified technical people in the Corporation, went to South Africa for an extremely worthwhile view of the extraordinary developments of synthetic fuels they have in that country. During the course of that time, Mr. Wilkins and I had a great deal of opportunity to be alone with Mr. Schroeder and Mr. Noble and to deal very directly with managerial questions in the Corporation. The first question that we had, that we talked about night after night after night, was who is in charge? Who is running this thing? Are you the honorary Chairman, Mr. Noble, and Mr. Schroeder the chief executive, in fact, or is Mr. Noble the Chairman and Mr. Schroeder in effect the honorary one. I think on several occasions we thought we understood the question, only to find the next morning that it was elusive. It wasn't possible, when I came back from South Africa, for me, at least, to conclude who was running the Corporation.

Very shortly thereafter, Mr. Wilkins, with that engaging bonhomie of which you have seen some evidence today, said hey, look, folks, we have to get going and talk about this. We are just not getting anywhere. Mike and Jack had just joined us. Jack says that his very first meeting was less than a year ago and he ends up in a Senate investigation within the first year; Jack was on a moving railroad and it wasn't very clear where the railroad was going.

So pursuant to Mr. Wilkins' charm, we had another one of our Senator Rudman legal meetings of all seven Directors in a private home. We discussed the questions of how are we going to run the Corporation. At this time I remember very well trying to give some kind of evidence of the strength of my feeling about my inability to communicate that we had to have a plan. As I was perspiring sitting there, I remember pointing to each Director, do you, Mr.

Carter, have a plan in your business? Do you, Mr. Masson, have a plan in your business? Do you, Mr. Wilkins? Do you, Mr. Noble? Do you, Mr. Schroeder? Each person said they had a plan for their business. I said, can we please have a plan for a $20 billion corporation. So when Senator Levin asked a while back whether Congress should be concerned about it being hypercontentious, I said yes. The reason is what were we being hypercontentious about; what we were being hypercontentious about was the inability of Directors, through any collegial or persuasive mechanism, to get the responsible management to take the most fundamental steps necessary to run an enterprise. The next thing about which we are hypercontentious becomes clearer as the fall of 1982 unfolds. Mr. Wilkins' efforts to have a collegial meeting were followed during the course of the autumn by perception that we continued to have troubles and that we were not able to communicate. We then went into the situation of the Coughlan report about which you have heard in great length.

The hypercontention at the Houston meeting was a very simple matter; what was it about? It was about this: Do the Board of Directors of the Synthetic Fuels Corporation have the right to determine that they will function as a Board and determine the conditions under which the Corporation functions, or does the President have the right to dictate how communications will happen?

The question of the reorganization about which I, rather mercifully, perhaps, have a limited contact, was very simply that. The Coughlan report said get together and talk about your problems. Mr. Schroeder said, I am not going to talk about the Coughlan report. Here is my recommendation: We are going to have a Vice President Corporate. So hypercontention was not about a simple matter and not about a childish matter of, are you going to have an officer or not; it was about the fundamental question of how was this Corporation going to work; are the Directors the managing, governing body of this Corporation? Do they have to be listened to? Unlike Mr. Wilkins, I have never felt ornamental but I have felt I was a courtesy director in a family business in which somebody else owned all the stock. People are perfectly polite to you; they have good manners; they listen to you; they appear to be concerned; they hear what you have to say. It doesn't make a damn bit of difference. They just do what they wanted in the first place. But this is a public corporation; as a public corporation, the Directors are in the position of having an obligation to continue to persevere to make the Corporation function.

I believe that the Corporation can be made to function; I believe at the moment it is quite dysfunctional; I believe that the hypertension in the Board is simply a matter of our inability as Board members to be able to consider, to say nothing of resolve, the fundamental questions of running any business: Are you going to have a plan; what is the plan going to be; are you going to have any level of collegiality about how things are done? I think it is appropriate to have a level of hyperconcern about that, and I think it is appropriate to bring it to the place where it is now.

Senator **Cohen**. You were so hyperconcerned, as a matter of fact, that you, along with Mr. Wilkins, went to Mr. Noble to present a demand that they investigate the incident involving Mr. Masson, that they remove Mr. Schroeder as President, and put together some sort of an operational plan to carry out the Corporation's objective?

Mr. MONKS. Yes.

Senator COHEN. What was the response to that?

Mr. MONKS. Mr. Noble was very angry. He said that we were trying to destroy the Corporation, that he would never do it, that it was an affront of unforgivable proportions.

Senator COHEN. Well, since that response, what has happened with respect to the relationship of the Board members?

Mr. MONKS. The Board is able to function in meetings on a level of civility. We consider the questions and do consider the questions that come forth, I think soberly, and I think carefully, and I think—well, I think that in terms of are we functioning as well as we could function, clearly we are not, Senator. I think we can conduct the business that comes before us at tolerable levels, but we are not able to carry out the full excitement and responsibility of this statute.

Senator COHEN. Well, I guess the question has to be asked. What has Synthetic Fuels done since its genesis or inception? What has been done? If we have a fundamental question we have to ask up here, that first phase is going to come to a conclusion, perhaps next year, as I recall, and the recommendation will have to be made as to whether it continues or whether it's abolished. Phase 2 involves another $61 billion or more. Based upon the record to date, or the record as of next year, this Congress is going to have to make a decision: Do we want to go on record as requesting the appropriation, total of $81 billion for this Corporation, to carry out the goals which will not be achieved for one reason or another? That's the fundamental question we have to address next year. So this is a perhaps a bit premature but nevertheless I think timely, timely in the sense that we ought to draw our attention to it and see if it can't be corrected, so that hopefully it will have an opportunity to justify its existence and warrant further extension.

Mr. MONKS. I think again of my reasons for being hyperconcerned, I am really excited about what Congress did with this Corporation; I hope, in answer to your question, Senator, it can be continued; it's important it be continued. Let me tell you why, on three levels.

First, I think it is an extraordinarily innovative effort by the Congress to try to figure out a way that public objectives can be served through the private sector. It is a way in which a special purpose Corporation can deal with not just energy but any kind of problem. And that is an experiment that we have got to have in this country because the other alternatives in different parts of the world just don't work very well.

Second, I think in terms of the energy dynamics, you don't have to read yesterday's newspaper, and see that the Persian Gulf is covered with oil and somebody might shut it down, to understand that, within, I don't know how many years, 5 years, 10 years, somebody is going to need synthetic fuels in America and the fact that Congress had foresight to set this up and keep it going is one of the many great achievements this Government has had. I feel very frustrated because there are things we can do. The statute is an excellent piece of legislation. It permits us a range of activity by which we can make a meaningful contribution.

Third, I didn't answer your question as to what we have accomplished, not because I lack voice or heart, but because I think of what we could be doing, I think of what we could be doing. Compared to what we could be doing, our accomplishments are unworthy.

Senator COHEN. Senator Rudman.

Senator RUDMAN. Thank you very much, Senator Cohen. I am going to follow the same line of questioning, generally with a few thoughts I would like to ask you about. Before I do that, Mr. Masson, I want to get the record totally straight on this affair which can be interpreted by people as they wish, depending on the record. I have a copy of the transcript of Wednesday's hearing, and there is one rather glaring discrepancy from your testimony this morning and Mr. Schroeder's Wednesday; there may be an explanation for it. I wonder if you might enlighten us to that explanation.

Let me go about midpage, to give you the flow of the questioning, I am going to question.

I am doing the questioning, Mr. Schroeder is answering. Question: I understand that; I just wanted to make out who they were. I was relating to Mobil. Now Mr. Masson is in the engineering construction business? Answer: yes; I don't think he's in the construction business. Question: engineering design business, and he asked you to help him. We are not talking in your capacity as president of Synthetic Fuels but as an individual. Answer: he asked me if I knew anybody with Mobil Land, and I told him that I did. Question: then what did he ask? Here is the part I would like you to pay close attention to. Answer: He asked me if I could find out if they had any work in his area of the country that he could bid on, and I told him that I would, but I am not certain that came up that evening. It may have.

That is quite in direct conflict with your answers to Senator Levin. Could you enlighten me about that?

Mr. MASSON. I can't answer why Vic would remember it that way or have heard it that way. I distinctly know what I asked. I might have used different phraseology in asking him that night and previously when I had discussed it with him, but I was not interested in any specific projects. I don't even know that Mobil Land Development has projects. I had very specifically heard that they purchased 2,000 acres, and I had not been able to confirm that in Phoenix. I was very definitely interested, if they had purchased it, and was trying to find it out, so I could have one of our people pursue that; but I never imagined that Mobil Development themselves would build any kind of project on 2,000 acres, because I don't believe that's the business they are in. They are in the business of buying land and trading it off to developers to use for commercial purposes. So any kind of a specific project that we might take a role in, I have no particular knowledge. I was interested in the land. So any phrasing I might have used, to cause him to say that, I am not aware of.

Senator RUDMAN. You are telling us that Mr. Schroeder's recollection of the incident is incorrect, that in no way were you asking him to ascertain whether or not Mobil Land had any work that your engineering firm could bid on?

Mr. **MASSON**. No, sir.

Senator **RUDMAN**. Mr. Monks, I guess I am going to get down to a very basic question here; we may be stirring around here some time. I would really like to ask it of all four Directors. The testimony certainly comes across to me that this Corporation has been in somewhat of a state of disarray in terms of its relationships, and that has had a direct effect on its accomplishment of its mission. We have a situation here that is unusual for Government. It may not be for private industry. The Chairman, Mr. Noble, a man of an excellent reputation, good background, his secretary happens to be the wife of a gentleman who is now the President of the Corporation, do you think that's a healthy situation in terms of outside, inside, irrespective of what the statute says?

Mr. **MONKS**. Mrs. Schroeder is a very, very, fine woman.

Senator **RUDMAN**. They are all fine people. I am not talking about that; they can be the greatest people in the world. I am talking about relationships here.

Mr. **MONKS**. I think it's extremely regrettable in a public Corporation to arrange relationships so that there is a perception of inside and outside. I think that this attitude has permeated the Corporation to the extent there are two classes of people. There are classes of people who are family people and classes of people who are not family. The qualifications of family people for the offices they hold are not professionally competitive. The qualifications of nonfamily people for the offices they hold are professionally competitive.

I think it's impossible to ask a responsible manager to try to run a business under those conditions.

Senator **RUDMAN**. In this case, Mr. Schroeder has been a business associate many years ago, and a close friend of the Chairman, Mr. Noble, for many years. Mrs. Schroeder, prior to her marriage to Mr. Schroeder, has been a long-time employee of the Chairman, and these three people personally are very close; is that correct?

Mr. **MONKS**. That's my impression. Yes.

Senator **RUDMAN**. Mr. Carter, generally, as to whether or not you think this had some effect on the whole management ladder.

Mr. **CARTER**. Yes, sir; I am sure it's had an effect.

Senator **RUDMAN**. Mr. Masson?

Mr. **MASSON**. Yes, sir; and I have had a number of conversations, prior, with Mr. Noble in regard to that.

Senator **RUDMAN**. Mr. Wilkins?

Mr. **WILKINS**. I do not differ from the other gentlemen, Senator.

Senator **RUDMAN**. Another question for all four members. Mr. Monks, your business background, I am vaguely familiar with it; would you specify for the record?

Mr. **MONKS**. Yes, sir; I practiced law; I directed a venture capital partnership. I was president, chief executive officer of an oil distribution business. I was president, chief executive officer of a coal mining and selling company. I was the chairman of the finance committee of a natural gas company in Calgary, Alberta, and a natural gas company in Houston, Tex. I have been chairman of the board of a bank and of a trust company.

Senator RUDMAN. Mr. Monks, the question I am about to ask, really, is only being asked to elicit your opinions, not to express my point of view. Does Mr. Schroeder have any qualifications to head what is really one of the largest corporations, the largest corporation in the world in synthetic fuels?

Mr. MONKS. I am not familiar with Mr. Schroeder's qualifications. Based on my experience with him, I would say that he could perform a very useful function in the Synthetic Fuels Corporation were the dynamics between himself and Mr. Noble different. I think such is a tragedy in this case. Certainly the way it is presently run is not acceptable.

Senator RUDMAN. In your memo of May authored by Mr. Wilkins, Carter and yourself, at least expressing your opinions or initials that were typed, sent over to them, you said, and it is true, that you wanted to make suitable arrangement for termination of the services of the incumbent President at the May meeting; do you still hold that?

Mr. MONKS. I do.

Senator RUDMAN. Mr. Carter?

Mr. CARTER. Yes, sir.

Senator RUDMAN. Incidentally, Mr. Schroeder has a very distinguished background in real estate development and management of real estate, and all of the associated financing projects and so forth. You may or may not know that. But from your observations, I happen to know your background, Mr. Carter, from looking at the staff work, do you think this gentleman is qualified to head this operation?

Mr. CARTER. I think Mr. Monks summed it up very well. I think Vic Schroeder is a very hard-working, talented individual, and very dedicated. I think, unfortunately, the mix you have there is very hard for anybody to distinguish who is doing what, when and how, and it has caused somewhat of a polarization, a feeling, I guess, within the Corporation itself, among the staff and staff people. I think and hope there will be a place for Vic Schroeder no matter what happens if he chooses to be in the Synthetic Fuels Corporation.

Senator RUDMAN. You came to this public service, if you will, as a Director of this Corporation. You were asked to do it; you accepted it. You were not personally friendly with any of the principals involved prior to that?

Mr. CARTER. I didn't know a single person.

Senator RUDMAN. Didn't know anyone?

Mr. CARTER. No, sir.

Senator RUDMAN. So your opinion, I guess you would have to say, is pure.

Mr. CARTER. Well, it might be wrong.

Senator RUDMAN. Mr. Masson, my question as to Mr. Schroeder, is he qualified to head this Corporation. You run an engineering company.

Mr. MASSON. In my opinion, yes, sir; I think he is qualified. Whether or not he is effective under the present circumstances is obviously up to some discussion. You have already heard some opinions today regarding that. I have not come to a conclusion that he cannot run it, and I think that the communication and the collegiality of the Board have improved significantly, beginning at the last Board meeting, this was a watershed meeting as I try to measure the output, which I tend to try to do analytically. I guess I depart a little bit from my colleague, Mr. Monks. First, I agree with him; I think we can do better; we can always do better. But in view of the record, I would like to say, particularly for the benefit of the staff—I think we have an excellent staff—in the short year I have been there and the 2 years in this Corporation has been in existence, this Corporation has looked at over 90 projects. I believe I asked just yesterday for a computer printout, which indicates the staff has spent approximately 78,000 man-hours of technical time reviewing them. A lot of that culminated yesterday in the first award of over $2 billion, which was a milestone.

On the positive side—I like to look on the positive side—I think that's one hell of an accomplishment for this Corporation. We still have over 15 projects that are moving along toward some type of potential award. We are struggling now, as I think was indicated yesterday when we had a closed session, there is the problem now of focusing on having to make these decisions between trade offs of production, geography and resource, because we are now beginning to make decisions. So I think there's a lot to be proud of. I do think the management that is there now is capable, if it has the support of Congress and this Board, to carry out its mission.

Senator **Rudman**. Mr. Wilkins, your answer to the question.

Mr. **Wilkins**. Can you repeat the question?

Senator **Rudman**. The question is simple: whether or not Mr. Schroeder, by his background, and what you have observed, is qualified to be President of this Corporation?

Mr. **Wilkins**. No, sir; and I don't think so. I do think it was significant that several months ago the Board met in Tulsa, that in order to use what we felt Mr. Schroeder's best talents were, that he should function more in the Chairman's office than in the line of an operational authority. Mr. Bowden then at Board direction assumed operational authority for the Corporation, which we thought cleared up some very vague and unfocused lines of operation, and I was commenting on that at the last meeting.

I think Mr. Schroeder could be the wrong guy in the right slot at the wrong time, or the right guy in the right slot at wrong time, or any situation you want to make. I do agree with Mike here that the staff here is excellent. Mr. Bowden has demonstrated a professional competence and a familiarity with large corporations and how they work, the process of how they work, and bringing people together into a consensus, to accomplish a common goal or a given plan, and he is certainly more familiar with the demands of a large corporation. Mr. Schroeder has a number of talents, and we would like to see them maximized, rather than having, we think—or I think, speaking only for myself—a situation where, even if the greatest fellow in the world might be in a wrong slot. There's a lot of jobs I would not like to have and would malfunction in. So I personally think things are improving, and it is just taking a little longer than we thought.

Senator **Cohen**. Mr. Wilkins, as I understand, Mr. Bowden is now functioning as Chief Operating Officer; is that correct?

Mr. Wilkins Yes, sir; temporarily without the title of President. We agreed to reconsider that title situation in some 90 days, which I believe comes up at the next Board meeting.

Senator **Rudman**. What is his title now? Executive Vice President?

Mr. **Wilkins**. Yes, his title now is Executive Vice President. I intend, on the basis of sworn testimony that I reviewed from Wednesday, to raise that issue at the next Board meeting. In fact, I do think Mr. Bowden should wear the title of what he is functioning as, which is the Chief Operating Officer.

Senator **Cohen**. At the end of that 90-day period, it's your expectation that Mr. Bowden would continue to function as the Chief Executive Officer of the Corporation?

Mr. **Wilkins**. Chief Operating Officer.

Senator **Cohen**. I am sorry.

Mr. **Wilkins**. That would be my expectation, Senator; yes.

Senator **Rudman**. I want to say to all of you, I certainly appreciate your candor. I know I have asked you some questions here publicly that might best be asked privately, but I asked them for a reason. The question has been asked and answered by all of you as to whether or not the Congress and Senate, in particular this committee and other committees, ought to be concerned about what we have seen and heard. As I think some of you know, I served on the Appropriations Committee and Interior Subcommittee in which we wrote what I would call a rather scathing report concerning Synthetic Fuels Corporation, and that was some months ago.

Any operation in which government spends huge amounts of money, in which the payoff is going to be a long way off, and we know that, requires patience on the part of the public and those of us who represent them.

What I have heard here, in the 2 days of hearings, things had better shape up very quickly down there, and you can continue what you are doing if you believe things are wrong to make them right, because the loser will not be the members of this Board; if Mr. Monks is not reappointed, I am sure he will find something to do.

But the fact of the matter is that the American people will lose 10, 15, 20, 30 years up, we will lose very heavily in terms of the security of the country; that is why the act is entitled—it is why it has a great deal to do for security. I hope no one feels they have won or lost by this meeting. They have brought out some very important information. Unless there are changes, I anticipate the Synthetic Fuels Corporation will not get the support it richly deserves from Congress financially, which would be tragic.

Senator **Cohen**. Thank you. It would not be tragic; it would be ironic. We would have come full circle, back to the recommendation of the transition team to abolish the Corporation. That, to see, the greatest irony of all is here, that as you are struggling to make the thing work, we might come to that conclusion on the circle, we have come back to that point in the beginning, in which the transition team recommended its abolition—Heritage Foundation continues to recommend its abolition—which the Reagan administration has, at best, had lukewarm support for.

A couple of final points. Mr. Monks, I indicated that my recommendation to you to have resigned was only a part of Monks versus Synthetic Fuels Corporation. Did you in fact offer to resign?

Mr. MONKS. Yes, I did. I offered to resign, I guess at our most hyper, hyper, hyper, hyper closed meeting in Tulsa, and I said that if my personality was the reason for the problems, that I would be very glad to resign to eliminate that as the problem.

Senator COHEN. In terms of coincidence of what is taking place now, the improvements, have you received some improved communications at least from the Chairman and the President of the Corporation?

Mr. MONKS. Yes; I was thrilled last week to get a letter from Chairman Noble that dealt with the question of responsibility for recommending a comprehensive strategy, that we had a certain amount of disagreement over whether that was a Board responsibility or whether it wasn't. And I was very pleased that Mr. Noble, 7 or 8 months after I had first taken it up—last week I got a letter—addressed it frankly, which indicates we could make a lot of progress and deal with that problem.

Senator COHEN. Is that the first letter of such a nature you have received?

Mr. MONKS. Yes; it is.

Senator COHEN. Mr. Wilkins?

Mr. WILKINS. Yes; it is.

Senator COHEN. Mr. Masson, Mr. Carter, Mr. Monks, have you responded to that letter.

Mr. MONKS. Yes, I did; a couple of days ago.

Senator COHEN. I would be happy if you would submit those letters to me for the record.[1] One final point. Coming back to coincidence, things happening in Washington and the press, after the scheduling of the hearings, of this particular meeting, I thought it quite coincidental that an item appeared in the Jack Anderson column disclosing, or alleging at least, raising the question of substantial conflict of interest, with respect to Mr. Monks in particular. I would like to at least give you an opportunity to respond to the question of conflict of interest, Mr. Monks, and all members here. I frankly—one of the ironic things, once again, is the intent of Congress, as I read the act, and participating in the course of our deliberations, it was anticipated that we would try to get people who had some knowledge and background of the field of energy, whether it be oil, or coal, or gas, or synthetic fuels. So it was anticipated that those people would have been deeply or actively involved in either the management, investment, or have some background on those fields. I assume many of the gentleman sitting around here do in fact have that background.

But I think in terms of the coincidence of scheduling the hearings and the sudden appearance of a nationwide column, which rather critically raised the question of your conflict of interest, you ought to have an opportunity to respond in the public forum.

Mr. MONKS. As you will gather, I am a great admirer of the work of Congress. Again, this is a piece of extraordinarily good piece of legislation. As I read the statute, it says if the Director first advises the Board of the nature of the matter on which he proposes to vote and makes full disclosure of his financial interests and the Board determines by majority vote that the interests are too inconsequential to affect his judgment, the Director may participate. At the time of appointment we filed with the executive branch financial disclosure statements. In my case, I was advised by counsel, I think, Mr. Malone—who is, if I may say of all of the professionals we have, I hold none in higher esteem than Mr. Malone—one of our ethics officers who has labored through our problems here with humor and tact said full-time Federal employees should annually update their financial statements.

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[1] See pp. 228-234.

Mr. Malone also advised me that I am a part-time Director under the statute, but that I in fact did work, up until January of this year, full time for the Synthetic Fuels Corporation, but that I have accepted no compensation for that work. Even though I am full time but don't get paid, and was not required to file, I did in fact file, in April of this year, a new financial statement.

That did disclose interests that I had; neither my wife nor I own any interests in any companies that do business with the Synthetic Fuels Corporation. In fact, my wife is the beneficiary of a trust set up by her grandfather that does own the securities that are the subject of periodic reviews that Mr. Malone has brought before the Board. If I ever suggested to those trustees how they should exercise their discretion in running those trusts, they would tell me to get lost. I have no power over them, no control over them, and I am—my wife is—an income beneficiary under the trust.

Mr. WILKINS. Senator, I should also point out that in the Board votes on any potential conflicts of interest, financially, all of those have been unanimous.

Senator COHEN. Gentlemen, I want to thank you all very much. I really do appreciate the kind of pressure that has been on you to be in various parts of the United States today, and to be here for these hearings. I can't add anything that I would want to about what Senator Rudman said about the purpose of the Corporation, the promise of the Corporation, and the potential that we have for making this country energy self-sufficient. I hope that through the course of these hearings, we will be able to at least have a record of which we can make an examination as to whether the promise has been matched by performance as to what the Corporation might hold for the future.

[The prepared statement of Mr. Masson follows:]

PREPARED STATEMENT OF MILTON M. MASSON, JR.

Mr. Chairman, Members of the Subcommittee, it is an honor to serve as a board member to the USSFC and a pleasure to be here today to discuss the organization and progress of the Corporation.

In discussing the role of the directors, I would like to present a brief outline of my background since most of you don't know me except as a board member of the USSFC. As a graduate, registered professional engineer, my career has included working for industry on the facilities side, Westinghouse Electric on the technical applications side and as a consulting engineer on the design side of the profession.

In the mid 70's I became interested in the energy future of this Country. Our firm founded an energy group that helped to pioneer solar energy application in the Southwest. (We became involved with geothermal applications, computer modeling for energy conservation strategies, and alternative energy sources such as solid waste, biomass and co-generation techniques.) While serving on President Reagan's transition team in 1980, I became interested in the use of synthetic fuels as a part of our long range solution to the inevitable energy crises.

Following transition, I served as a special White House Consultant to the Corporation, along with Russ Miller, now on the staff of the corporation. It was during this period of time that I became convinced that the development of a synthetic fuels industry was an important strategic energy resource that this country should develop on a commercial scale.

Following this period of volunteer service, I helped organize a joint venture group consisting of four firms to actively pursue work in the synthetic fuels industry. We called our group Syntech. Although we were not successful in this effort, it was an excellent opportunity to learn more about the early challenges and difficulties that this new industry was to encounter.

As soon as I learned that I was being considered for appointment to the board of directors of the USSFC, I informed the other members of the Syntech team that our company must no longer participate as it might lead to potential future conflict of interest. At that time, the other members of the group discontined their mutual efforts, as far as I am aware.

As the only technical engineer on the board, I have attempted to keep up to date on the various technologies in an effort to make reasonable and informed judgements when a project specific is being judged on its technical merits. It has been a pleasure to have Leonard Axelrod heading up this staff function. He is a proven asset with demonstrated ability and experience. He has a clear understanding of his role, and, in my opinion, carries out his duties in a most satisfactory manner.

When I joined the board it had been in operation for over a year, during which period many policies and procedures had been determined. With a brief period to catch up with the existing status of the corporation and the board of directors, I made the transition to a good level of personal comfort with the help of excellent briefings and cooperation from the staff.

There have obviously been some mistakes made as the corporation organization has evolved. We can all look back today employing our perfect 20/20 hindsight. However, considering the number of tasks, the complexity of technology development, and the short time frame, I am pleased with the corporation progress to date since joining the Board last August. I view the future as both promising and exciting.

Each individual board member seems to have a high priority on effecting good communications and we have worked hard to continue to improve our communications. While even the best intentioned group of individuals will have disagreements from time to time, the key is to disagree agreeably. This has been, and will continue to be my personal philosophy.

On Wednesday of this week our chairman, Mr. Noble, discussed many of the challenges that have been encountered. We have all struggled with these matters and worked together to find acceptable solutions.

I do not take this mission lightly. Collectively and individually, we have the duty to make every possible effort to meet the challenges set forth in the Energy Securities Act, and at the same time, keep the public trust as we allocate tax dollars prudently.

In this regard I will continue my practice of exercising independent judgment on the decisions to be made; calling them as I see them. While I will listen to all sides and consider all options, in the final analysis I will make up my own mind, believing this to be the charge and responsibility of a director.

Thank you for allowing me to appear before your Senate Subcommittee.

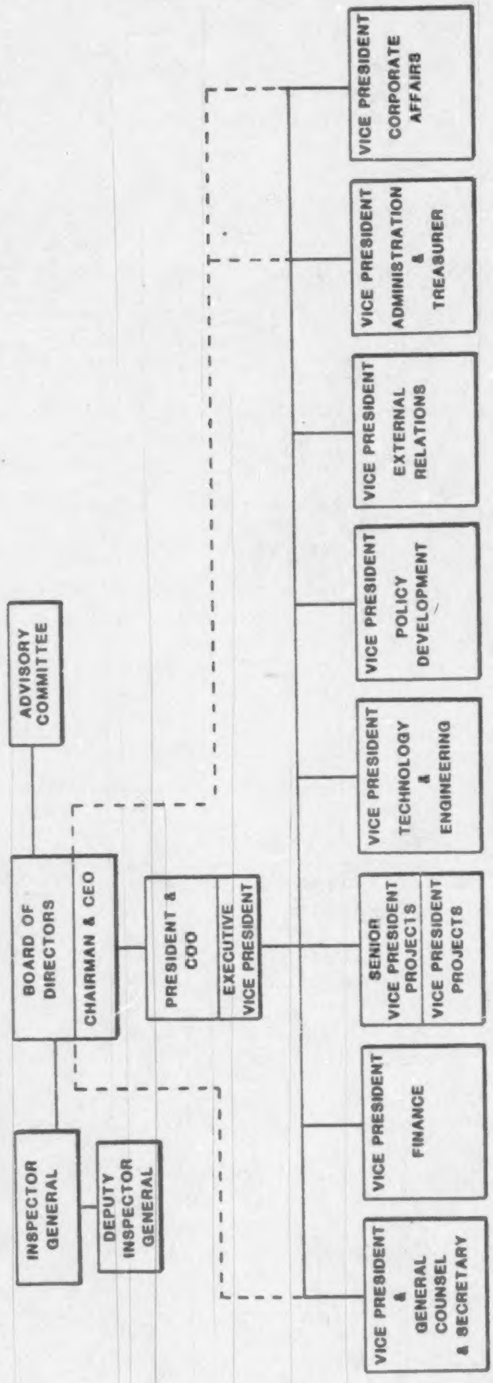
Senator COHEN. Thank you very much. The subcommittee will stand adjourned.

[Whereupon, at 12:08 p.m., the subcommittee was adjourned, subject to reconvene at the call of the Chair.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

United States
Synthetic Fuels Corporation

ORGANIZATION CHART


ADVISORY COMMITTEE
BOARD OF DIRECTORS
CHAIRMAN & CEO
INSPECTOR GENERAL
DEPUTY INSPECTOR GENERAL
PRESIDENT & COO
EXECUTIVE VICE PRESIDENT
VICE PRESIDENT & GENERAL COUNSEL & SECRETARY
VICE PRESIDENT FINANCE
SENIOR VICE PRESIDENT PROJECTS
VICE PRESIDENT PROJECTS
VICE PRESIDENT TECHNOLOGY & ENGINEERING
VICE PRESIDENT POLICY DEVELOPMENT
VICE PRESIDENT EXTERNAL RELATIONS
VICE PRESIDENT ADMINISTRATION & TREASURER
VICE PRESIDENT CORPORATE AFFAIRS

7/21/83

Energy Security Act

Excerpts

Part B—United States Synthetic Fuels Corporation

SUBTITLE A—GENERAL PROVISIONS

SHORT TITLE

SEC. 111. This part may be cited as the "United States Synthetic Fuels Corporation Act of 1980" 42 USC 8701 note.

GENERAL DEFINITIONS

SEC. 112. For purposes of this part: 42 USC 8702.

(1) The term "Board of Directors" means the Board of Directors of the Corporation, including the Chairman and the six other Directors.

(2) The term "Chairman" means the Chairman of the Board of Directors of the Corporation.

(3) The term "concern" means any—

(A) person;

(B) State or political subdivision or governmental entity thereof, or an Indian tribe or tribal organization;

(C) multi-State entity which possesses legal powers necessary to carry out activities under this part;

(D) foreign government or agency thereof when participating in joint ventures with any entity described in subparagraph (A) or (B); or

(E) combination of the aforementioned, which is engaged, or proposes to engage, in a synthetic fuel project pursuant to this part.

(4) The term "Corporation" means the United States Synthetic Fuels Corporation.

(5) The term "Corporation construction project" means a synthetic fuel project undertaken in accordance with the provisions of subtitle E.

(6) The term "Director" means a member of the Board of Directors, including the Chairman.

(7)(A) The term "financial assistance" means any of the following forms of financial assistance, or combinations thereof, as provided in subtitle D—

(i) loans;
(ii) loan guarantees;
(iii) price guarantees;
(iv) purchase agreements;
(v) joint-ventures; and
(vi) acquisition and lease back of a synthetic fuel project pursuant to section 137(c); *Post*, p. 663.

(B) Such term shall not include any form of grant, except cost-sharing agreements pursuant to section 131(u). *Post*, p. 654.

(8) The term "Indian tribe" means any Indian tribe, band, nation, or other organized group or community, including any Alaska Native village or regional or village corporation as defined in or established pursuant to the Alaska Native Claims Settlement Act which is recognized as eligible for the special programs and services provided by the United States to Indians because of their status as Indians.

(9) The term "joint venture" means a synthetic fuel project module undertaken in accordance with the provisions of section 136.

(10) The term "loan" means a loan, or commitment to loan, made under section 132; *Post*, p. 658.

(11) The term "loan guarantee" means a guarantee of, or commitment to guarantee, indebtedness, which is made under section 133. *Post*, p. 660.

(12) The term "person" means any individual, company, cooperative, partnership, corporation, association, consortium, unincorporated organization, trust, estate, or any entity organized for a common business purpose.

(13) The term "price guarantee" means a guarantee of, or commitment to guarantee, the price received or to be received by a concern from the sale of synthetic fuel. Such term includes only a guarantee, or commitment to guarantee, which is made under section 134. *Post*, p. 661.

(14) The term "purchase agreement" means any contract to purchase synthetic fuel, any guarantee thereof, or a commitment thereof, which is made under section 135. *Post*, p. 661.

(15) The term "qualified concern" means a concern which demonstrates to the satisfaction of the Board of Directors evidence of its capability directly or by contract to undertake and complete the design, construction, and operation of a proposed synthetic fuel project.

(16) The term "State" means any of the several States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands.

(17)(A) The term "synthetic fuel" means any solid, liquid, or gas, or combination thereof, which can be used as a substitute for petroleum or natural gas (or any derivatives thereof, including chemical feedstocks) and which is produced by chemical or physical transformation (other than washing, coking, or desulfurizing) of domestic sources of—

(i) coal, including lignite and peat;

(ii) shale;

(iii) tar sands, including those heavy oil resources where—

(I) the cost and the technical and economic risks make extraction and processing of a heavy oil resource uneconomical under applicable pricing and tax policies; and

(II) the costs and risks are comparable to those associated with shale, coal and tar sand resources (other than heavy oil) qualifying for financial assistance under this part; and

(iv) water, as a source of hydrogen only through electrolysis.

(B) Such term includes mixtures of coal and combustible liquids, including petroleum.

(C) Such term does not include solids, liquids, or gases, or combinations thereof, derived from biomass, which includes timber, animal and timber waste, municipal and industrial waste, sewage, sludge, oceanic and terrestrial plants, and other organic matter.

(18)(A) The term "synthetic fuel project" means any facility using an integrated process or processes at a specific geographic location in the United States for the purpose of commercial production of synthetic fuel. The project may include only—

(i) the facility, including the equipment, plant, machinery, supplies, and other materials associated with the facility, which converts the domestic resource to synthetic fuel;

(ii) the land and mineral rights required directly for use in connection with the facilities for the production of synthetic fuels;

(iii) any facility or equipment to be used in the extraction of a mineral for use directly and exclusively in such conversion;

(I) which—

(aa) is co-located with the conversion facility or is located in the immediate vicinity of the conversion facility; or

(bb) if not co-located or located in the immediate vicinity, is incidental to the project (except in the event of a coal mine where no other reasonable source of coal is available to the project); and

(II) which is necessary to the project; and

(iv) any transportation facility, electric powerplant, electric transmission line or other facility—

(I) which is for the exclusive use of the project;

(II) which is incidental to the project; and

(III) which is necessary to the project, except that transportation facilities used to transport synthetic fuel away from the project shall be used exclusively to transport synthetic fuel to a storage facility or pipeline connecting to an existing pipeline or processing facility or area within close proximity of the project.

(B)(i) Such term may also include a project which will result in the replacement of a significant amount of oil and is—

(I) used solely for the production of a mixture of coal and combustible liquids, including petroleum, for direct use as a fuel, but shall not include—

(aa) any mineral right; or

(bb) any facility or equipment for extraction of any mineral;

(II) used solely for the commercial production of hydrogen from water through electrolysis; and

(III) a magnetohydrodynamic topping cycle used solely for the commercial production of electricity.

Post, pp. 660, 662.
Post, p. 665.

(ii) Such a synthetic fuel project using magnetohydrodynamic technology shall only be eligible for financial assistance pursuant to section 133 or section 136, but not both, and shall not be authorized for purposes of subtitle E.

(iii) Such a synthetic fuel project for commercial production of hydrogen from water shall not be eligible for financial assistance pursuant to section 136.

(C) For purposes of this paragraph—

(i) the term "exclusive" means for the sole use of the project, except that an incidental byproduct might be used for other purposes;

(ii) the term "incidental" means a relatively small portion of the total project cost; and

(iii) the term "necessary" means an integrated part of the project taking into account considerations of economy and efficiency of operation.

EFFECTIVE DATE

42 USC 8701 note.

SEC. 113. This part shall take effect on the date of the enactment of this part.

SUBTITLE B—ESTABLISHMENT OF CORPORATION

ESTABLISHMENT

United States Synthetic Fuels Corporation.
42 USC 8711.

SEC. 115. (a) There is hereby created the United States Synthetic Fuels Corporation.

(b) The principal office of the Corporation shall be located in the District of Columbia. The Corporation may establish offices elsewhere in the United States as determined by the Board of Directors of the Corporation. The Corporation is deemed to be a resident of the District of Columbia.

Post, p. 673.

(c) The general powers of the Corporation are those powers specified in section 171.

BOARD OF DIRECTORS

42 USC 8712.

SEC. 116. (a)(1) The powers of the Corporation shall be vested in the Board of Directors, except those functions, powers, and duties vested in the Chairman by or pursuant to this part.

Membership.

(2) The Board of Directors shall consist of a Chairman and six other Directors appointed by the President by and with the advice and consent of the Senate. Not more than four Directors shall be members of any one political party. The Chairman shall devote full working time to the affairs of the Corporation and shall hold no other salaried position.

Terms.

(b)(1) The Directors shall serve for seven-year terms. Of the Directors first appointed, the Chairman shall serve as Chairman for a seven-year term, one Director shall serve for a term of six years, one shall serve for a term of five years, one shall serve for a term of four years, one shall serve for a term of three years, one shall serve for a term of two years, and one shall serve for a term of one year.

(2) Upon expiration of the initial term of each initial Director, each Director appointed thereafter shall serve for a term of seven years. Whenever a vacancy shall occur on the Board of Directors, the President shall appoint, by and with the advice and consent of the Senate, an individual to fill such vacancy for the remainder of the applicable term. Upon the expiration of a term, a Director may continue to serve for a maximum of one year or until a successor shall have been appointed and shall have taken office, whichever occurs first.

Removal.

(3) Any Director may be removed from office by the President only for neglect of duty, or malfeasance in office.

(c) The President shall designate, at the time of appointment of a Director, whether such Director, other than the Chairman, will serve in either a full-time or part-time capacity. Directors serving in a part-time capacity may not hold any full-time salaried position in the Federal Government or in any State or local government. Directors serving in a full-time capacity shall hold no other salaried position.

Oath.

(d) Before assuming office, each Director shall take an oath faithfully to discharge the duties thereof. All Directors shall be citizens of the United States.

(e) The Board of Directors shall meet at any time pursuant to the call of the Chairman and as may be provided by the bylaws of the Corporation, but not less than quarterly. A majority of the Board of Directors shall constitute a quorum, and any action by the Board of Directors shall be effected by majority vote of all members of the Board of Directors. The Board of Directors shall adopt, and may from time to time amend, such bylaws as are necessary for the proper management and functioning of the Corporation.

Open meetings.

Exceptions.

(f)(1) All meetings of the Board of Directors held to conduct official business of the Corporation shall be open to public observation, and shall be preceded by reasonable public notice. Pursuant to such bylaws as it may establish, the Board of Directors may close a meeting if the meeting is likely to disclose—

(A) information which is likely to adversely affect financial or securities markets or institutions;

(B) information the premature disclosure of which would be likely to—

(i) lead to speculation in securities, commodities, minerals, or land; or

(ii) impede—

(I) the ability of the Corporation to establish procurement or synthetic fuel project selection criteria; or

(II) its ability to negotiate a contract for financial assistance; or

(C) matters or information exempted from public disclosure pursuant to paragraph (1), (2), (4), (5), or (6) of subsection (c) of section 552b, title 5 of the United States Code.

(2) The determination to close any meeting of the Board of Directors for any of the purposes specified in subparagraphs (A) through (C) of paragraph (1) shall be made in a meeting of the Board of Directors open to public observation preceded by reasonable notice. The Board of Directors shall prepare minutes of any meeting which is closed to the public and such minutes shall be made promptly available to the public, except for those portions thereof which, in the

judgment of the Board of Directors, may be withheld under the provisions of subparagraphs (A) through (C) of paragraph (1).

(g) The levels of compensation of the Board of Directors shall be fixed initially by the President and may be adjusted from time to time upon recommendation by the Board of Directors and concurrence of the President.

OFFICERS AND EMPLOYEES

42 USC 8713.

SEC. 117. (a) The Chairman shall be the chief executive officer of the Corporation, and shall be responsible for the management and direction of the Corporation.

(b) The Board of Directors shall—

(1) establish the offices and appoint the officers of the Corporation (including a General Counsel and Treasurer) and define their duties;

5 USC 5311, 5331.

(2) fix the compensation of individual officer positions and categories of other employees of the Corporation taking into consideration the rates of compensation in effect under the Executive Schedule and the General Schedule prescribed by subchapters II and III of chapter 53 of title 5, United States Code for comparable positions or categories. If the Board of Directors determines that it is necessary to fix the compensation of any officer position or category of other positions at a rate or rates in excess of that prescribed for level I of the Executive Schedule under section 5312 of title 5, the Board of Directors may transmit to the President its recommendations with respect to the rates of compensation it deems advisable for such positions and categories. Such recommendations shall become effective at the beginning of the first pay period which begins after the thirtieth day following the transmittal of such recommendations unless the President has specifically disapproved such recommendation and notified the Board of Directors to such effect; and

(3) provide a system of organization to fix responsibility and promote efficiency.

(c) Except as specifically provided herein, Directors, officers, and employees of the Corporation shall not be subject to any law of the United States relating to governmental employment.

Post, p. 665.

(d) The Chairman shall appoint such employees as may be necessary for the transaction of the Corporation's business to, and may discharge such employees from, positions established in accordance with this section: *Provided, however,* That the Corporation shall not be authorized to employ more than three hundred individuals in full-time professional positions at any time: *And provided further,* That for purposes of the preceding limitation, individuals employed for Corporation construction projects under subtitle E shall not be counted.

(e) No political test or qualification shall be used in selecting, appointing, promoting, or taking other personnel actions with respect to officers, agents, and employees of the Corporation, except as provided in section 116(a)(2).

CONFLICTS OF INTEREST AND FINANCIAL DISCLOSURE

42 USC 8714.
2 USC 701 note.

SEC. 118. (a) The financial disclosure provisions of the Ethics in Government Act of 1978 (92 Stat. 1824; Public Law 95-521) applicable to individuals occupying positions compensated under the Executive Schedule shall apply to the Directors and officers of the Corporation and to employees of the Corporation whose position in the schedule established by the Board of Directors pursuant to section 117(b)(2) is compensated at a rate equivalent to that payable for grade GS-16 or above of the General Schedule established by chapter 53 of title 5, United States Code. The financial disclosure provisions of the Ethics in Government Act of 1978 shall apply to the Corporation as if it were a Federal agency.

5 USC 5332 note.
44 FR 58678.
2 USC 701 note.

(b) Any provision of law governing post-Federal employment activities shall not apply to former Federal employees who may be employed by the Corporation while acting on behalf of the Corporation.

(c)(1) Except as permitted by paragraph (3), no Director shall vote on any matter respecting any application, contract, claim, or other particular matter pending before the Corporation, in which, to his or her knowledge, he or she, his or her spouse, minor child, partner, or an organization (other than the Corporation) in which he or she is serving as officer, director, trustee, partner, or employee, or any person or organization with whom he or she is negotiating or has any arrangement concerning prospective employment, has a financial interest.

(2) Action by a Director contrary to the prohibition contained in paragraph (1) shall be cause for removal of such Director pursuant to section 116(b)(3), but shall not impair or otherwise affect the validity of any otherwise lawful action by the Corporation in which the Director or officer participated.

(3) The prohibition contained in paragraph (1) shall not apply if the Director first advises the Board of Directors of the nature of the particular matter in which he or she proposes to participate and makes full disclosure of such financial interest, and the Board of Directors determines by majority vote that the financial interest is too remote or too inconsequential to affect the integrity of such Director's services for the Corporation in that matter. The Director involved shall not participate in such determination.

(d) Section 207(a) of title 18, United States Code (and subsections (f), (h), and (j) of such section to the extent they relate to subsection (a)) shall apply to former Directors, officers, and employees of the Corporation as if they were former officers or employees of the executive branch of the United States Government. Such section shall apply to the Corporation as if it were an agency of the executive branch of the United States Government.

DELEGATION

42 USC 8715.

Sec. 119. (a) The Board of Directors may, by resolution, delegate to the Chairman and the other Directors functions, powers, and duties assigned to the Corporation under this part other than those expressly vested in the Board of Directors pursuant to sections 116(f), 117(b), 118(c)(3), 126(a)(1)(D), 126(b), 127(c), (e), and (f), 131(a), (b), and (f), 132(a) and (d), 133(a) and (b), 134, 135(a), 136(a) and (b), 137(b) and (c), 141(a), 154, 171(a)(8) and (c), 173(a) and (b), 181(a) and (c), and 191(b). The Chairman may, only by written instrument, delegate such functions, powers, and duties as are assigned to the Chairman by or pursuant to the provisions of this part to such other full-time Directors, officers, or employees of the Corporation as the Chairman deems appropriate.

Post, pp. 658, 660, 661, 662, 663, 665, 669, 673, 675, 680, 681.

(b)(1) Notwithstanding any other provision of law, the President and any other officer or employee of the United States shall not make any delegation to the Chairman, the Board of Directors, or the

Corporation of any power, function, or authority not expressly authorized by the provisions of this part, except where such delegation is pursuant to an authority in law which expressly makes reference to this section.

(2) Notwithstanding any other provision of law, the Reorganization Act of 1977 (5 U.S.C. 901 et seq.) shall not apply to authorize the transfer to the Corporation of any power, function, or authority.

AUTHORIZATION OF ADMINISTRATIVE EXPENSES

42 USC 8716.

SEC. 120. (a)(1)(A) The Corporation is authorized to expend during any fiscal year for—

(i) subject to paragraph (2), reasonable and necessary administrative expenses, not to exceed $35,000,000; and

(ii) subject to paragraph (4), generic studies and specific reviews of individual proposals for financial assistance, not to exceed $10,000,000.

(B) For purposes of section 122(e), and from the amount specified in subsection (a)(1)(A)(i), the Inspector General may expend not more than $2,000,000 during any fiscal year for reasonable and necessary administrative expenses.

(2) For purposes of this section, administrative expenses shall include all ordinary and necessary expenses, including all compensation for personnel and consultants, expenses for computer usage, for space needs of the Corporation and similar expenses. For each fiscal year commencing after September 30, 1980, the $35,000,000 limitation in subsection (a)(1)(A)(i) and the $2,000,000 limitation in subsection (a)(1)(B) shall be increased as of October 1 each year by an amount equal to the percentage increase in the Gross National Product implicit price deflator, as published by the Department of Commerce or its successor, for the year then ended over the level so established for the year ending September 30, 1979.

(3) Administrative expenses include reimbursement to Directors for reasonable expenses which are incurred in connection with their service as Directors of the Corporation.

(4) Expenditures authorized under subsection (a)(1)(A)(ii) shall not be available—

(A) for administrative expenses;

(B) for the reimbursement of governmental agencies for the salaries of personnel of such agencies detailed to the Corporation;

(C) to exceed the personnel limits established pursuant to section 117(d); or

(D) for operating expenses.

(b) Funds authorized for administrative expenses shall not be available for the acquisition of real property or for expenses related to Corporation construction projects pursuant to subtitle E.

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(c) The Corporation may make expenditures, without further appropriation, for reasonable and necessary administrative expenses not to exceed the limit provided in subsection (a) in any fiscal year and then only in accordance with a detailed statement of such expenditures which has been transmitted to the Congress, the Committee on Energy and Natural Resources of the Senate and the appropriate committees of the House of Representatives in accordance with the provisions of section 153 along with the President's proposed budget for such fiscal year: *Provided*, That such expenditures for fiscal years 1980 and 1981 may be made without such prior statement. It is the intention of this section that the Corporation's

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expenditures for administrative expenses shall reflect due consideration for economy and efficiency.

PUBLIC ACCESS TO INFORMATION

SEC. 121. (a) The Corporation shall make available to the public, upon request, any information regarding its organization, procedures, requirements, and activities: *Provided*, That the Corporation is authorized to withhold information which is exempted from disclosure pursuant to subsection (b) of section 552 of title 5, United States Code, and section 116(f) of this part as it pertains to minutes of meetings of the Board of Directors. 42 USC 8717.

(b) The Corporation, upon receipt of any request for information, shall determine promptly whether to comply with such request and shall promptly notify the person making the request of such determination. In the event of an adverse determination, and if requested by the person requesting the information, such determination shall be reviewed by the General Counsel of the Corporation.

(c) Section 1905 of title 18, United States Code, shall apply—

(1) to Directors, officers, and employees of the Corporation as if they were officers or employees of the United States; and

(2) to the Corporation as if it were a Federal agency.

INSPECTOR GENERAL

SEC. 122. (a)(1) In addition to the officers provided for in section 117(b)(1), there shall be in the Corporation an officer with the title of "Inspector General" who shall be appointed for a term of seven years by the President, by and with the advice and consent of the Senate, solely on the basis of integrity and demonstrated ability and without regard to political affiliation. The Inspector General shall report directly to, and be under the general supervision of, the Board of Directors, and shall not be under the control of, or subject to supervision by, any other officer of the Corporation. 42 USC 8718.

(2) Neither the Board of Directors nor any other officer or employee of the Corporation shall prevent or prohibit the Inspector General from initiating, carrying out, or completing any audit, investigation, or inspection.

Deputy Inspector General.

(3) There shall also be in the Corporation a Deputy Inspector General who shall be appointed for a term of seven years by the President, by and with the advice and consent of the Senate, solely on the basis of integrity and demonstrated ability and without regard to political affiliation. The Deputy Inspector General shall assist the Inspector General in carrying out his duties under this section and shall, during the absence or temporary incapacity of the Inspector General, or during a vacancy in that office, act as Inspector General.

Removal.

(4) The Inspector General or the Deputy Inspector General may be removed from office by the President only for neglect of duty, or malfeasance in office. The President shall communicate the reasons for any such removal to both Houses of Congress.

Compensation.

(5) The Inspector General and the Deputy Inspector General shall be compensated at a rate fixed by the Board of Directors in accordance with section 117(b)(2), which rate for the Inspector General shall be not less than the rate provided for level III of the Executive Schedule under section 5314 of title 5, United States Code, and for the Deputy Inspector General not less than the rate provided for level IV of such schedule under section 5315 of title 5, United States Code. 44 FR 58678.

Duties.

(b)(1) It shall be the duty and responsibility of the Inspector General—

(A) to supervise, coordinate, and provide policy direction for auditing, investigative, and inspection activities relating to the promotion of economy and efficiency in the administration of, or the prevention or detection of fraud and abuse in, programs and operations of the Corporation;

(B) to determine the extent to which such programs and operations are consonant with the purposes of this title, and in compliance with the provisions of this part;

(C) to make recommendations for correcting deficiencies in, or improving, the programs and operations of the Corporation; and

(D) to keep the Board of Directors and the Congress fully and currently informed, by means of the reports required by subsections (c), (d), and (h), and otherwise, concerning problems, abuses, and deficiencies relating to the administration of programs authorized by this part, to recommend corrective action concerning such problems, abuses, and deficiencies, and to report on the progress made in implementing such corrective action.

(2) In carrying out his duties and responsibilities, the Inspector General shall give particular regard to the activities of the Comptroller General of the United States in relation to the Corporation, with a view toward avoiding duplication and insuring effective coordination and cooperation.

(3) In carrying out his duties and responsibilities, the Inspector General shall report expeditiously to the Attorney General whenever he has reasonable grounds to believe there has been a violation of Federal criminal law.

Annual Reports.

(c) The Inspector General shall, not later than November 30 of each year, prepare an annual written report summarizing the activities of his office during the immediately preceding fiscal year. Each such report shall include—

(1) an identification and description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of the Corporation disclosed by such activities;

(2) a description of recommendations for corrective action with respect to significant problems, abuses, or deficiencies identified and described under paragraph (1); and

(3) a summary of matters referred to law enforcement authorities and the extent to which prosecutions and convictions have resulted.

(d) The annual report of the Inspector General shall be furnished to the Board of Directors not later than November 30 of each year and shall be transmitted by the Board of Directors to the President, the Committee on Energy and Natural Resources of the Senate, and the Speaker of the House of Representatives within thirty days after the receipt of the report, together with a report by the Board of Directors containing any comments it deems appropriate. The Board of Directors shall make copies of each annual report available to the public upon request and at a reasonable cost within sixty days after its transmittal to the Congress.

Public availability.

(e) In addition to the authority otherwise provided by this section, the Inspector General, in carrying out the provisions of this section, is authorized—

(1) to have access to all records, reports, audits, reviews, documents, papers, recommendations, or other material availa-

ble to the Corporation which relate to programs and operations with respect to which the Inspector General has responsibilities under this section;

(2) to request such information or assistance as may be necessary for carrying out the duties and responsibilities provided by this section from any Federal, State, or local governmental agency or unit thereof;

(3) to require by subpena the production of all information, documents, reports, answers, records, accounts, papers, and other data and documentary evidence necessary in the performance of the functions assigned by this section, which subpena, in the case of contumacy or refusal to obey, shall be enforceable by order of any appropriate United States district court;

(4) to have direct and prompt access to the Board of Directors when necessary for any purpose pertaining to the performance of functions and responsibilities under this section;

(5) to select, appoint, and employ such employees as may be necessary for carrying out the functions, powers, and duties of the Inspector General, which employees shall be compensated in accordance with salary schedules established pursuant to section 117(b)(2);

(6) to obtain services of consultants at daily rates not to exceed the equivalent rate prescribed for grade GS-18 of the General Schedule by section 5332 of title 5, United States Code; and

44 FR 58678.

(7) to enter into contracts and other arrangements for audits, studies, analyses, and other services with public agencies and with private persons, and to make such payments as may be necessary to carry out the provisions of this section.

(f)(1) Upon request of the Inspector General for information or assistance under subsection (e)(2), the head of any Federal agency involved shall, insofar as is practicable and not in contravention of any existing statutory restriction or regulation of the Federal agency from which the information is requested, furnish to such Inspector General, or to an authorized designee, such information or assistance.

(2) Whenever information or assistance requested under subsection (e)(1) or (e)(2) is, in the judgment of the Inspector General, unreasonably refused or not provided, the Inspector General shall report the circumstances to the head of the establishment involved without delay.

(g) The Board of Directors shall make available to the Inspector General appropriate and adequate office space at offices of the Corporation.

(h) The Inspector General—

(1) may make such additional investigations and reports relating to the operations of the Corporation as are, in the judgment of the Inspector General, necessary or desirable; and

(2) shall provide such additional information or documents as may be requested by any committee or subcommittee of either House of Congress with respect to matters within their jurisdiction.

(i) Notwithstanding any other provision of law, the reports, information, or documents required by or under this section shall be transmitted to the Board of Directors and to the Congress, or committees or subcommittees thereof, by the Inspector General without further clearance or approval.

ADVISORY COMMITTEE

Establishment.
42 USC 8719.

SEC. 123. (a) There is hereby established an Advisory Committee to the Board of Directors for the purpose of—

(1) reviewing the Corporation's solicitations of proposals for financial assistance proposed for issuance pursuant to section 127; and

(2) advising the Corporation in relation to other matters within the expertise of the Advisory Committee, or any member thereof, as the Board of Directors may request of the Advisory Committee from time to time.

Membership.

(b) The Advisory Committee is composed of the Secretary of the Treasury, the Secretary of Defense, the Secretary of the Interior, the Secretary of Energy, the Administrator of the Environmental Protection Agency, and the Chairman of the Energy Mobilization Board. The Chairman of the Advisory Committee shall be designated by the President from among its members.

(c) The Advisory Committee shall meet with the Board of Directors not less than semiannually, and the Corporation shall furnish to the Advisory Committee such professional, secretarial, and other services as the Advisory Committee may request.

(d) During any meeting with the Board of Directors or in any communication with the Corporation, the members of the Advisory Committee shall be governed by the laws and regulations respecting conflicts of interest applicable to their respective departments and agencies as such laws and regulations relate to meetings with representatives of a private corporation.

SUBTITLE C—PRODUCTION GOAL OF THE CORPORATION

NATIONAL SYNTHETIC FUEL PRODUCTION GOAL

Establishment.
42 USC 8721.

SEC. 125. There is hereby established a national goal of achieving a synthetic fuel production capability equivalent to at least 500,000 barrels per day of crude oil by 1987 and of at least 2,000,000 barrels per day of crude oil by 1992, from domestic resources.

PRODUCTION STRATEGY

42 USC 8722.

SEC. 126. (a)(1) In order to assure achievement of the purposes of this title and the national synthetic fuel production goal set forth in section 125, the Corporation—

(A) shall, pursuant to section 127(a), solicit proposals for synthetic fuel projects;

(B) shall, pursuant to section 131(a), award financial assistance to those qualified concerns submitting proposals acceptable to the Board of Directors;

(C) shall, after soliciting proposals pursuant to subparagraph (A) and reviewing such proposals, if in the judgment of the Board of Directors, there are, or will be, insufficient acceptable proposals as necessary to achieve the purposes of this title, undertake to negotiate contracts pursuant to subtitle D as necessary to achieve the purposes of this title; and

(D) may, only after fulfilling the requirements of subparagraphs (A), (B), and (C), and paragraph (3), if in the judgment of the Board of Directors, there still are, or will be, insufficient acceptable proposals as necessary to achieve the purposes of this title, consistent with the objectives set forth in paragraph (2) and subject to the limitations of subtitle E, undertake Corporation construction projects pursuant to subtitle E as necessary to achieve the purposes of this title.

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(2)(A) Prior to the approval of a comprehensive strategy pursuant to subsection (c), the Corporation in discharging its responsibilities under paragraph (1) shall employ financial assistance pursuant to subtitle D or Corporation construction projects pursuant to subtitle E in such manner as will, in the judgment of the Board of Directors, (i) incorporate a technological diversity of processes, methods and techniques for each domestic resource that offers significant potential for use as a synthetic fuel feedstock as well as (ii) offer the potential for achieving the national synthetic fuel production goal set forth in section 125.

"Domestic resource."

(B) For the purposes of this paragraph, the term "domestic resource" shall be construed so as to require the consideration of different types and qualities of coal (such as high- and low-sulphur coal, or Eastern and Western coal), shale, and tar sands, as different domestic resources.

Publication in Federal Register.

(3) Prior to undertaking a Corporation construction project pursuant to subtitle E, the Corporation shall publish in the Federal Register its intent to undertake a Corporation construction project and the objectives of such a Corporation construction project, and shall solicit proposals to meet such objectives through the use of financial assistance mechanisms established under subtitle D. If the Corporation does not receive, within thirty days after the publication of the objectives pursuant to the preceding sentence, an acceptable notice of intent to submit a proposal, the Corporation may undertake such a Corporation construction project pursuant to subtitle E.

Comprehensive strategy, establishment.

(b)(1) Subject to the requirements of paragraph (2), the Corporation shall, consistent with the purposes of this title, establish a comprehensive strategy to achieve the national synthetic fuel production goal established by section 125. In the formulation of such comprehensive strategy, the Corporation—

(A) shall consider all practicable means for the commercial production of synthetic fuel from domestic resources, employing the widest diversity of feasible technologies; and

(B) after consultation with the Secretary of Defense, shall consider the feasibility of meeting national defense fuel requirements utilizing synthetic fuel produced pursuant to the provisions of this part.

Submittal to Congress.

(2) Subject to the requirements of paragraph (3), not later than four years after the effective date of this part, the Board of Directors shall adopt and directly submit its proposed comprehensive strategy to the Congress. Such comprehensive strategy, when approved pursuant to subsection (c), shall become the comprehensive strategy of the Corporation to achieve the national synthetic fuel production goal established by section 125.

(3) The proposed comprehensive strategy shall—

(A) to the extent feasible, set forth the recommendations of the Board of Directors on the Corporation's objectives and schedules for their achievement;

(B) directly address and give emphasis to private sector responsibilities in the efforts necessary to achieve the national synthetic fuel production goal established by section 125;

(C) specifically address how any Corporation involvement recommended in the comprehensive strategy will be expressly limited and ultimately terminated upon a date or event certain in the future;

(D) include a financial or investment strategy prospectus which sets forth the justification for the requested authorization of appropriations;

(E) include findings, based upon accompanying comprehensive reports, regarding synthetic fuel projects which received financial assistance prior to submission of such comprehensive strategy to the Congress with respect to—

(i) the economic and technological feasibility of each such project including information on product quality, quantity, and cost per unit of production; and

(ii) the environmental effects associated with each such project as well as projected environmental effects and water requirements; and

(F) include recommendations based upon accompanying comprehensive reports concerning the specific mix of technologies and resource types which the Corporation proposes to support after approval pursuant to subsection (c) of the comprehensive strategy.

Additional authorizations.

(4) After the approval of the comprehensive strategy, the Board of Directors may request, pursuant to subsection (c)(10), additional authorizations of appropriations. Such requests shall include a financial or investment prospectus which sets forth the justification for the requested authorizations of appropriations.

Approval.

"Joint resolution."

(c)(1)(A) The comprehensive strategy submitted by the Board of Directors to the Congress pursuant to subsection (b)(2) shall be deemed approved if a joint resolution of approval has been enacted into law during the same Congress in which such comprehensive strategy was submitted to the Congress. If either House of the Congress within ninety calendar days of continuous session after introduction fails to pass such a joint resolution or rejects such a joint resolution, the comprehensive strategy shall be deemed disapproved. For purposes of this subsection, the term "joint resolution" means only a joint resolution of either House of Congress as described in paragraph (5) or paragraph (10)(B).

(B) Ninety calendar days after receipt by the Congress of the comprehensive strategy, on the first day that both Houses of the Congress are in session after such ninety-day period, a joint resolution of approval containing the authorization of appropriations requested by the Corporation for the proposed comprehensive strategy shall be introduced in their respective Houses by the Chairman of the Committee on Energy and Natural Resources of the Senate and the Majority Leader of the House of Representatives.

(C) The Corporation may withdraw the comprehensive strategy any time prior to the adoption of such joint resolution by either House of the Congress.

(2) Upon introduction, the joint resolution shall be referred immediately to the Committee on Energy and Natural Resources of the Senate and the appropriate committee or committees of the House of Representatives.

(3) For the purpose of subsection (c)(1)(A) of this section—

(A) continuity of session is broken only by an adjournment of Congress sine die at the end of the second session of a Congress; and

(B) the days on which either House is not in session because of an adjournment of more than 3 days to a day certain are excluded in the computation of the calendar-day period involved.

(4) This subsection is enacted by Congress—

(A) as an exercise of the rulemaking power of the Senate and House of Representatives, respectively, and as such it is deemed a part of the rules of each House, respectively, but applicable only with respect to the procedure to be followed in that House in the case of resolutions described by paragraph (5) of this subsection; and it supersedes other rules only to the extent that it is inconsistent therewith; and

(B) with full recognition of the constitutional right of either House to change the rules (so far as relating to the procedure of that House) at any time, in the same manner and to the same extent as in the case of any other rule of the respective House.

(5) The joint resolution approving the comprehensive strategy under this part shall read as follows after the resolving clause: "That the Congress of the United States approves the comprehensive strategy submitted to the Congress by the United States Synthetic Fuels Corporation on __________ and __________ dollars are hereby authorized to be appropriated without fiscal year limitation to the Secretary of the Treasury to purchase and retain notes or other obligations of the United States Synthetic Fuels Corporation.", the first blank space therein being filled with the date and year, the second blank space therein being filled with the appropriate dollar figure.

(6)(A) If any committee to which such joint resolution with respect to the comprehensive strategy has been referred has not reported it at the end of 60 calendar days after its referral, it shall be in order to move either to discharge any such committee from further consideration of such joint resolution or to discharge any such committee from further consideration of any other joint resolution with respect to such comprehensive strategy which has been referred to such committee.

(B) A motion to discharge may be made only by an individual favoring such joint resolution, shall be highly privileged (except that it may not be made after all committees to which such joint resolution has been referred have reported a joint resolution with respect to the comprehensive strategy), and debate thereon shall be limited to not more than 1 hour, to be divided equally between those favoring and those opposing the joint resolution. Except to the extent provided in paragraph (9)(A), an amendment to the motion shall not be in order, and it shall not be in order to move to reconsider the vote by which the motion was agreed to or disagreed to.

(C) If the motion to discharge is agreed to or disagreed to, the motion may not be renewed, nor may another motion to discharge the committee be made with respect to any other joint resolution with respect to the same comprehensive strategy.

(7)(A) When all such committees have reported, or have been discharged from further consideration of, a joint resolution, it shall be at any time thereafter in order (even though a previous motion to the same effect has been disagreed to) to move to proceed to the consideration of such a joint resolution. The motion shall be highly privileged and shall not be debatable. An amendment to the motion shall not be in order, and it shall not be in order to move to reconsider the vote by which the motion was agreed to or disagreed to.

Debate, time limitation.

(B) Debate on the joint resolution and all amendments thereto pursuant to paragraph (9)(A) shall be limited to not more than 10 hours and final action on the joint resolution shall occur immediately following conclusion of such debate. A motion further to limit debate shall not be debatable. Except to the extent provided in paragraph (9)(B), an amendment to, or motion to recommit such a joint resolution shall not be in order, and it shall not be in order to move to reconsider the vote by which such a joint resolution was agreed to or disagreed to.

(8)(A) Motions to postpone made with respect to the discharge from committee or the consideration of a joint resolution, shall be decided without debate.

(B) Appeals from the decision of the Chair relating to the application of the rules of the Senate or the House of Representatives, as the case may be, to the procedures relating to a joint resolution shall be decided without debate.

(9) With respect to the comprehensive strategy—

(A) In the consideration of any such joint resolution on any such comprehensive strategy, it shall be in order to offer an amendment to the dollar figure in the second blank of the text of the joint resolution described in paragraph (5), and any amendments thereto only containing such a dollar figure. No other amendments except pro forma amendments shall be in order.

(B) If one House receives from the other House a joint resolution with respect to the comprehensive strategy, then the following procedure applies:

(i) the joint resolution of the other House with respect to such comprehensive strategy shall not be referred to a committee; and

(ii) in the case of a joint resolution of the first House with respect to such plan—

(I) the procedure with respect to that or other resolutions of such House with respect to such plan shall be the same as if no joint resolution from the other House with respect to such comprehensive strategy had been received; but

(II) on any vote on final passage of a resolution of the first House with respect to such plan a resolution from the other House with respect to such plan where the text is identical shall be automatically substituted for the joint resolution of the first House.

(10)(A) The Corporation at any time after the approval of the comprehensive strategy may submit requests pursuant to subsection (b)(4) for additional authorizations of appropriations each of which shall be in the form of a joint resolution of approval (bearing an identification number).

(B) Such joint resolution shall read as follows after the resolving clause: "That the Congress of the United States approves the request transmitted to the Congress by the United States Synthetic Fuels Corporation on __________ and there are hereby authorized to be appropriated without fiscal year limitation to the Secretary of the Treasury to purchase and retain notes or other obligations of the United States Synthetic Fuels Corporation the sum of __________ dollars.", the first blank space therein being filled with the day and year, and the second blank space therein being filled with the appropriate dollar figure.

(C) On the first day that both Houses of the Congress are in session after receipt of a joint resolution of approval containing the additional authorization of appropriations requested by the Corporation, the joint resolution described in subparagraph (B) shall be introduced in their respective Houses by the Chairman of the Committee on Energy and Natural Resources of the Senate and the Majority Leader of the House of Representatives. Such resolution shall be considered in accordance with the procedures of this subsection.

(11) The aggregate of the authorizations of appropriations under paragraph (5) enacted into law and any subsequent requests by the Corporation for additional authorizations for appropriations under paragraph (10) enacted into law shall not exceed $68,000,000,000.

(d)(1) Notwithstanding the provisions of subsection (c), if at the expiration of such time as the Corporation is permitted for submission of its comprehensive strategy to the Congress, the Corporation determines that an adequate basis of knowledge has not yet been developed upon which to formulate and implement a comprehensive strategy for the achievement of the national synthetic fuel production goal established in section 125, the Corporation shall report the reasons for such determination to the Congress, and may request, in a Corporation synthetic fuel action pursuant to section 128, such additional time up to one year as the Corporation considers necessary for the formulation of its proposed comprehensive strategy.

(2) Such request shall be deemed approved unless disapproved by either House of Congress pursuant to section 128. If such request is disapproved pursuant to section 128, the Corporation shall submit its proposed comprehensive strategy to the Congress within ninety days of such disapproval.

(3) The Board of Directors may, consistent with the purposes of this title, amend the approved comprehensive strategy if, in their judgment, such amendment is necessary to achieve the national synthetic fuel production goal set forth in section 125. If such amendment would substantially alter the use of funds previously approved by the Congress pursuant to subsection (c), the Board of Directors may not implement such amendment unless such amendment has been submitted to the Congress and has been approved pursuant to section 129. Any such amendment and its justification shall be included in the subsequent quarterly report to the Congress pursuant to section 177(c). *Post,* p. 678.

SOLICITATION OF PROPOSALS

42 USC 8723.

SEC. 127. (a)(1) The Corporation is hereby directed to solicit proposals from time to time from concerns interested in the construction or operation, or both, of synthetic fuel projects. The Corporation shall provide notice of such solicitations in the Federal Register and by such other notice as is customarily used to inform the public of Federal assistance for major research and development undertakings.

(2) All proposed solicitations under paragraph (1) shall be submitted to the Advisory Committee established under section 123. The Advisory Committee shall have 30 calendar days to review and comment on such solicitations prior to their initial issuance.

(3) Within six months after the date of the enactment of this part, the Corporation shall make an initial set of solicitations directed by paragraph (1). Such set of solicitations shall encompass a diversity of technologies (including differing processes, methods, and techniques)

for each potential domestic resource as well as all of the forms of financial assistance authorized in subtitle D.

(b) All solicitations of proposals for financial assistance shall be conducted in a manner so as to encourage maximum open and free competition.

(c) Any concern may request the Board of Directors to issue a solicitation pursuant to this section for proposals for a general type of synthetic fuel project and the Board of Directors, if it deems the action to be in accordance with the purposes of this title and the provisions of this part, may issue such a solicitation.

(d) Each solicitation for proposals pursuant to the authority of this section shall set forth general evaluation criteria, as determined by the Board of Directors, taking into account—

(1) the achievement of the national synthetic fuel production goal established in section 125; and

(2) the requirements of section 126(a), for a general type of synthetic fuel project concerning—

(A) the type of domestic resource to be used by the proposed synthetic fuel project;

(B) the type or types of technologies to be employed; and

(C) the type and amount of synthetic fuel to be produced.

(e) Thirty days after the date of the enactment of this part, the Secretary of Energy, on behalf of the Corporation and pursuant to the authorities in this part, may make a solicitation for commercial scale high-Btu coal gas plants which shall be reviewed and acted upon by the Corporation pursuant to this part.

(f) The Corporation shall give priority consideration to applications for financial assistance from any concern proposing a synthetic fuel project in any State which, in the judgment of the Board of Directors, indicates an intention to expedite all regulatory, licensing, and related government agency activities related to such project.

(g) The Corporation shall consult with the Governor of any State in which a proposed Corporation construction project or a proposed joint venture project under section 136 would be located with regard to (1) the manner in which the project would be developed and (2) regulatory, licensing, and related governmental activities pertaining to such project. The States shall have the opportunity to provide written response to the Corporation on all aspects of such project development, licensing, and operation.

CONGRESSIONAL DISAPPROVAL PROCEDURE

"Corporation synthetic fuel action."
42 USC 8724.

SEC. 128. (a) For purposes of this section, the term "Corporation synthetic fuel action" means any matter required to be transmitted, or submitted to the Congress in accordance with the procedures of this section.

(b) The Corporation shall transmit any Corporation synthetic fuel action (bearing an identification number) to both Houses of the Congress on the same day. If both Houses are not in session on the day on which any Corporation synthetic fuel action is transmitted to the appropriate officers of each House, for the purposes of this section such Corporation synthetic fuel action shall be deemed to have been received on the first succeeding day on which both Houses are in session.

(c) Except as provided in subsection (e), if a Corporation synthetic fuel action is transmitted to both Houses of Congress, such Corporation synthetic fuel action shall take effect at the end of the first period of 30 calendar days of continuous session of the Congress after the date on which such Corporation synthetic fuel action is received by such Houses, unless between the date on which such Corporation synthetic fuel action is received and the end of such 30 calendar day period, either House passes a resolution stating in substance that such House does not favor such action.

(d) For purposes of subsection (c)—

(1) continuity of session is broken only by an adjournment of the Congress sine die; and

(2) the days on which either House is not in session because of an adjournment of more than 3 days to a day certain are excluded in the computation of the 30-calendar-day period.

(e) Under provisions contained in a Corporation synthetic fuel action, any provision of such Corporation synthetic fuel action may take effect on a date later than the date on which such Corporation synthetic fuel action otherwise would take effect, if such action is not disapproved, pursuant to the provisions of this section.

(f) This section is enacted by the Congress—

(1) as an exercise of the rulemaking power of the Senate and the House of Representatives, respectively, and as such, it is deemed a part of the rules of each House, respectively, but applicable only with respect to the procedure to be followed in that House in the case of resolutions described by subsection (g) of this section, and it supersedes other rules only to the extent that it is inconsistent with such rules; and

(2) with full recognition of the constitutional right of either House to change the rules (so far as they relate to the procedure of that House) at any time, in the same manner and to the same extent as in the case of any other rule of the House.

"Resolution."

(g)(1) For purposes of subsection (b), the term "resolution" means only a resolution of either House of the Congress the matter after the resolving clause of which is as follows: "That the ______ does not favor the Corporation synthetic fuel action numbered ____ received by the Congress on ______, 19__.", the first blank space therein being filled with the name of the resolving House and the other blank spaces therein being appropriately filled. Any such resolution may only contain a reference to one Corporation synthetic fuel action.

(2) A resolution once introduced with respect to a Corporation synthetic fuel action shall immediately be referred to the Committee on Energy and Natural Resources of the Senate and to the appropriate committee or committees of the House of Representatives (and all resolutions with respect to the same Corporation synthetic fuel action shall be referred to the same committee or committees).

(3)(A) If any committee to which a resolution with respect to a Corporation synthetic fuel action has been referred has not reported it at the end of 20 calendar days after it was received by the House involved, it shall be in order to move either to discharge such committee from further consideration of such resolution or to discharge such committee from further consideration of any other resolution with respect to such Corporation synthetic fuel action which has been referred to the committee.

(B) A motion to discharge may be made only by an individual favoring the resolution, shall be highly privileged (except that it may not be made after the committee has reported a resolution with respect to the same Corporation synthetic fuel action), and debate thereon shall be limited to not more than one hour, to be divided equally between those favoring and those opposing the resolution. An amendment to the motion shall not be in order, and it shall not be in order to move to reconsider the vote by which the motion was agreed to or disagreed to.

(C) If the motion to discharge is agreed to or disagreed to, the motion may not be renewed, nor may another motion to discharge the committee be made with respect to any other resolution with respect to the same Corporation synthetic fuel action.

(4)(A) When all committees to which the resolution was referred have reported (or have been discharged from further consideration of) a resolution, it shall be at any time thereafter in order (even though a previous motion to the same effect has been disagreed to) to move to proceed to the consideration of the resolution. The motion shall be highly privileged and shall not be debatable. An amendment to the motion shall not be in order, and it shall not be in order to move to reconsider the vote by which the motion was agreed to or disagreed to.

Debate, time limitation.

(B) Debate on the resolution referred to in subparagraph (A) of this paragraph shall be limited to not more than 5 hours, which shall be divided equally between those favoring and those opposing such resolution. A motion further to limit debate shall not be debatable. An amendment to, or motion to recommit, the resolution shall not be in order, and it shall not be in order to move to reconsider the vote by which such resolution was agreed to or disagreed to.

(5)(A) Motions to postpone made with respect to the discharge from committee or the consideration of a resolution and motions to proceed to the consideration of other business, shall be decided without debate.

Appeals.

(B) Appeals from the decision of the Chair relating to the application of the rules of the Senate or the House of Representatives, as the case may be, to the procedure relating to a resolution shall be decided without debate.

(6) Notwithstanding any of the provisions of this subsection, if a House has approved a resolution with respect to a Corporation synthetic fuel action, then it shall not be in order to consider in that House any other resolution with respect to the same Corporation synthetic fuel action.

CONGRESSIONAL APPROVAL PROCEDURE

42 USC 8725.

Sec. 129. (a)(1) Any amendment to the comprehensive strategy submitted by the Board of Directors to the Congress pursuant to section 126(d) shall be deemed approved if a concurrent resolution of approval has been approved by the Congress during the same Congress in which such request was submitted. If the Congress, within 90 calendar days of continuous session after introduction, fails to approve such a concurrent resolution or either House of Congress rejects such a concurrent resolution, the request shall be deemed disapproved.

(2) On the first day that both Houses of Congress are in session after receipt of such amendment, a concurrent resolution of approval shall be introduced in their respective Houses by the Chairman of the Committee on Energy and Natural Resources of the Senate and the Majority Leader of the House of Representatives.

(3) The Corporation may withdraw the amendment any time prior to the adoption of such concurrent resolution by either House of the Congress.

(b) Upon introduction, the concurrent resolution shall be referred immediately to the Committee on Energy and Natural Resources of the Senate and the appropriate committee or committees of the House of Representatives.

(c) For the purpose of subsection (a)(1) of this section—

(1) continuity of session is broken only by an adjournment of Congress sine die at the end of the second session of a Congress; and

(2) the days on which either House is not in session because of an adjournment of more than 3 days to a day certain are excluded in the computation of the calendar day period involved.

(d) This subsection is enacted by Congress—

(1) as an exercise of the rulemaking power of the Senate and House of Representatives, respectively, and as such it is deemed a part of the rules of each House, respectively, but applicable only with respect to the procedure to be followed in that House in the case of resolutions described by subsection (e) of this section; and it supersedes other rules only to the extent that it is inconsistent therewith; and

(2) with full recognition of the constitutional right of either House to change the rules (so far as relating to the procedure of that House) at any time, in the same manner and to the same extent as in the case of any other rule of the respective House.

(e) The concurrent resolution approving the amendment under this part shall read as follows after the resolving clause: "That the Congress of the United States approves the amendment to the comprehensive strategy submitted to the Congress by the United States Synthetic Fuels Corporation on ________", the blank space therein being filled with the date and the year.

(f)(1) If any committee to which such concurrent resolution with respect to the amendment to the comprehensive strategy has been referred has not reported it at the end of 60 calendar days after its referral, it shall be in order to move either to discharge any such committee from further consideration of such concurrent resolution or to discharge any such committee from further consideration of any other concurrent resolution with respect to such amendment to the comprehensive strategy which has been referred to such committee.

(2) A motion to discharge may be made only by an individual favoring such concurrent resolution, shall be highly privileged (except that it may not be made after all committees to which such joint resolution has been referred have reported a concurrent resolution with respect to the request), and debate thereon shall be limited to not more than 1 hour, to be divided equally between those favoring and those opposing the concurrent resolution. An amendment to the motion shall not be in order, and it shall not be in order to move to reconsider the vote by which the motion was agreed to or disagreed to.

(3) If the motion to discharge is agreed to or disagreed to, the motion may not be renewed, nor may another motion to discharge the committee be made with respect to any other concurrent resolution with respect to the same amendment to the comprehensive strategy.

(g)(1) When all such committees have reported (or have been discharged from further consideration of) a concurrent resolution, it shall be at any time thereafter in order (even though a previous motion to the same effect has been disagreed to) to move to proceed to the consideration of such a concurrent resolution. The motion shall be highly privileged and shall not be debatable. An amendment to the motion shall not be in order, and it shall not be in order to move to reconsider the vote by which the motion was agreed to or disagreed to.

Debate, time limitation.

(2) Debate on the concurrent resolution shall be limited to not more than 5 hours and final action on the concurrent resolution shall occur immediately following conclusion of such debate. The 5 hours shall be equally divided between supporters and opponents of such resolution. A motion further to limit debate shall not be debatable. Except to the extent provided in subsection (i), an amendment to, or motion to recommit such a concurrent resolution shall not be in order, and it shall not be in order to move to reconsider the vote by which such a concurrent resolution was agreed to or disagreed to.

(h)(1) Motions to postpone, made with respect to the discharge from committee, or the consideration of a concurrent resolution, shall be decided without debate.

Appeals.

(2) Appeals from the decision of the Chair relating to the application of the rules of the Senate or the House of Representatives, as the case may be, to the procedures relating to a concurrent resolution shall be decided without debate.

(i) With respect to a concurrent resolution related to an amendment to the comprehensive strategy, if one House receives from the other House a concurrent resolution with respect to such amendment, then the following procedure applies:

(1) the concurrent resolution of the other House with respect to such request shall not be referred to a committee; and

(2) in the case of a concurrent resolution of the first House with respect to such request—

(A) the procedure with respect to that or other concurrent resolutions of such House with respect to such amendment shall be the same as if no concurrent resolution from the other House with respect to such request had been received; but

(B) on any vote on final passage of a concurrent resolution of the first House with respect to such amendment a concurrent resolution from the other House with respect to such plan where the text is identical shall be automatically substituted for the concurrent resolution of the first House.

[From the New York Times, June 22, 1981]

SYNTHETIC FUEL CHIEF DOUBTS GAS NEED

(By Robert D. Hershey Jr.)

WASHINGTON, June 21.—The chairman of the Synthetic Fuels Corporation has expressed strong doubts about the need for plants that produce natural gas, raising new fears that the Government may reduce its support for the fledgling industry.

Edward E. Noble, who took office a month ago, met last week with officials of the American Natural Resources Company, which is now building the Great Plains Coal Gasification project in North Dakota. He told them that he was concerned that the gas from what would be the nation's first modern-day commerical synthetic fuels plant would cost too much and might not be needed.

Mr. Noble would not comment directly on accounts of these talks but they were confirmed by a spokesman for the Synthetic Fuels Corporation.

"Right now he's got real serious questions about it," the spokesman declared.

REPORT SAID TO URGE TERMINATION

Mr. Noble's objections might not be sufficient to kill the Great Plains project, on which work began last summer, since the necessary Federal loan guarantee of up to $3.02 billion could be provided by the Department of Energy.

But they were regarded by Congressional and other sources as evidence that Mr. Noble may be moving aggressively to severely limit overall Government support for synthetic fuels.

Mr. Noble was the Oklahoma businessman who led the Reagan administration's transition team for synthetic fuels, whose report is said to have recommended that the corporation be terminated.

The Synthetic Fuels Corporation was created under a law signed by President Carter last June. It was intended to spur creation of an industry that could produce the synthetic fuels equivalent of 500,000 barrels of oil a day by 1987.

It has gotten off to a very slow start, however, and the oil surplus that emerged this spring has now further reduced the sense of urgency that once surrounded the synthetic fuels goals.

Some Congressional sources say that they think Mr. Noble, in seeking to affect a project like Great Plains that does not, and might never, come under his jurisdiction, is on a "mission" to carry out the recommendations of the transition team.

"He's parachuting into the stadium and saying 'stop the game,' " one staff aide asserted. "It's quite offensive."

SUPPORTERS MOUNT DEFENSE

When asked about this, the corporation's spokesman said, "It is true that it is his goal to get the job done and go out of business," But he added that if this were taken to mean this would be done in, say, six months or a year, that would be "an inaccurate interpretation."

Meanwhile, political supporters of synthetic fuels have mounted a defense centered on the confirmation proceedings for Synthetic Fuel Corporation board members.

Mr. Noble is said to have been pushing to have the White House declare his body fully operational, despite the fact that the other six board members are not yet in place. President Reagan has named five candidates but their formal nominations have not yet reached the Senate.

According to a source involved in the confirmation process, James A. McClure, the Idaho Republican who heads the Senate Energy Committee, has told the Administration that the committee was in effect holding the rest of the board hostage until agreement on corporation policy can be reached.

Among the prospective board members are Victor A. Schroeder, one of Mr. Noble's best friends, and V. M. Thompson Jr., his banker.

The problem-plagued Great Plains project, for which planning began in the early 1970's, now appears to be the vehicle for a showdown over policy.

Department of Energy approval of the Great Plains loan guarantee, which Energy Secretary James B. Edwards has repeatedly said he supported, would be regarded by many as a rebuke to Mr. Noble. Senior presidential aides are said to have told Mr. Edwards the decision is his.

D.O.E. MIGHT ADMINISTER

If granted, the loan guarantee would probably remain within the department to be administered, since it could not be transferred to the Synthetic Fuels Corporation unless the corporation voted to accept the project for its portfolio.

American Natural Resources, caught in the political crossfire, now says that unless the guarantee is approved soon it might have to scrub the project in which it has $65 million already at risk.

"After nine years of effort we have finally reached the starting gate," a company spokesman said late last week. But a decision has to be made by month's end, he indicated, if another building season is not to slip by, thereby escalating costs still further.

"It's not a matter of weeks anymore," said the spokesman for American Natural Resources, which has set similar deadlines on previous occasions. "We're talking about days."

[From the Wall Street Journal, June 19, 1981]

U.S. READIES GRANTS TO SYNFUELS PROJECTS AMID FEARS PROGRAM IS BEING DEMOTED

(By Rich Jaroslovsky)

WASHINGTON.—The government's synthetic-fuels program is off and crawling.

The Reagan administration is expected soon to announce agreements giving federal aid to two or three big synfuels projects, and a bit later the new U.S. Synthetic Fuels Corp. will be declared officially in business. But synfuels proponents fear that, despite such announcements, the administration is demoting the program to a low priority.

President Reagan has never been very enthusiastic about the synfuels program, but his administration doesn't seem to care enough to make the political effort to kill it. Instead, the administration seems content to move as slowly and cautiously as possible both to gear up the program and to support new synfuels projects and technologies.

As a result, observers, say, the program is likely never to match the once-massive expectations for it—unless events once again force it to the forefront of energy policy, or unless its so far low-key new leadership proves unexpectedly dynamic.

Once billed as the nation's biggest under taking since the Apollo moonshot, the synfuels program has already lagged badly. Two years after the House vote that started the synfuels bandwagon, and a full year after President Carter signed it into law, it has made little, if any, headway toward its stated goal of helping free the nation from reliance on foreign oil. Its original targets—of overseeing production of enough synthetics to replace 500,000 barrels of oil a day by 1987 and two million barrels by 1992—are dismissed as unattainable even by its supporters.

DIFFERENT CLIMATE

"I don't see how anyone can conclude anything but that synthetic fuels have been set back," says Michael Koleda, executive director of the National Council on Synthetic Fuels Production, a trade association. "It's a dramatically different climate than it was a year ago, or even eight months ago."

A number of factors have contributed to the change. One is the election of Ronald Reagan; with his free-market, anit-big-goverment orientation, he and his advisers are suspicious of a $17 billion program to provide government incentives to private industry. Another factor is the current glut and price weakness of crude oil, which calls into question some of the economic and national-security assumptions on which the synfuels program was based. Still another factor is the continuing turmoil and disarray within the program itself; though it still hasn't been formally declared "operational" by the President, the government-chartered Synthetic Fuels Corp. is already on its third boss.

"We're in danger" of running out of steam to power the synfuels effort, argues former Rep. William Moorhead, the Pennsylvania Democrat who was as responsible as anyone for getting the program started in the first place.

What has happened to the synfuels program says a good deal about how times have changed since its inception in the midst of the spring 1979 gasoline lines triggered by the Iranian revolution. Back then, the political heat was on: angry constituents were demanding action from their elected representatives to remedy the nation's all-too-obvious energy ills. In that charged atmosphere, Mr. Moorhead offered a measure to expand vastly the government's formerly desultory involvement in encouraging the production of oil and gas from coal, shale and other unconventional sources.

FAST ACTION

The Moorhead proposal was in the right place at the right time. It roared through the House almost without debate or opposition. The Carter administration then jumped aboard, elaborating and expanding the notion into the multibillion-dollar Synthetic Fuels Corp. After much political wrangling, the program finally cleared Congress and was signed into law by Mr. Carter last June 30.

The Reagan administration's attitude, though, has been less than enthusiastic. In its budget-cutting, the new administration moved to kill or cut back several projects that had been sponsored by the Energy Department. President Reagan resisted the urge to slash at the fledgling corporation, but sacked its Carter-appointed chairman and board of directors, then let it drift aimlessly for months under an acting chairman before naming Edward Noble, a Tulsa oilman, to run it. Since he was confirmed by the Senate May 26, several top officials have departed, voluntarily or otherwise; Mr. Noble, meanwhile, has said little about his plans to either industry or the public. (He declined to be interviewed for this story because, an aide says, he is still learning the ropes at the corporation.)

The administration continues to say, although quietly, that it supports the federal synfuels effort. "We think this (the corporation) is the way to go," insists one White House energy official. The pending contract awards and official start-up of the corporation could generate a flurry of favorable publicity for the administration.

Still, skepticism in Washington and in the industry runs high. "I don't think there's any commitment" to the program by the administration, one industry official asserts. Even if the corporation isn't gutted, he predicts, its Reagan-appointed leadership will back fewer projects, operate on a slower timetable and stick closer to already-known technologies. The result, he suggests, is that smaller companies and those with untried technologies may be increasingly squeezed out by those that least need government help but stand the best chance of getting it: major corporations.

BIGGEST IMPONDERABLE

The biggest imponderable for the program's future, however, is clearly out of the new corporation's hands: What happens to the price and supply of other, competing sources of energy? The push for synfuels sprang from the gasoline lines of 1979 and the subsequent doubling of world oil prices. Now, with prices soft and supplies plentiful, industry officials acknowledge that a number of companies are having second thoughts about beginning costly synfuels projects. The industry that seemed to be taking off even ahead of the government program may be returning to earth a bit.

With the economic situation, environmental problems and the administration's lukewarm attitude, a few projects have already run into trouble. Conoco Inc. recently pulled out of a coal-gasification facility; a Gulf Oil Corp. plan to build an oil-from-coal plant, which was to be financed by the U S. Japanese and West Germany governments, is on the ropes.

But many other projects are proceeding out of a belief that energy prices will still be high enough in the future to make synfuels viable. The current oil-pricing disarray may prove temporary, synfuels backers say. Or the U.S. may further deregulate natural gas, sending prices spiraling upward. Or the Mideast may erupt again, recreating the economic and political pressures that gave birth to the synfuels push in the first place.

Former Rep. Moorhead, who is practicing law in the synfuels area, recalls that twice before—in 1944 and 1952—the government and the country took some tenative steps toward encouraging a synfuels industry only to lose interest. "If we repeat again our 1944 and 1952 mistakes," he warns, "we'll live to regret it in 1986."

[From Harper's, August 198[illegible]]

NOBLE ENDEAVOR

(By Eric Schine)

For almost an hour, Edward Noble, wealthy Oklahoma oil heir and head of the U.S. Synthetic Fuels Corporation (SFC), squirms and shifts on what looks like a perfectly comfortable suede-covered couch in his spacious Washington office. Noble is one of those millionaire businessmen you heard so much about in the early days of the Reagan administration, the ones who were going to shape up government with their entrepreneurial instincts and their keen understanding of the risky world of capitalism. It's clear he'd rather be talking about anything but synthetic fuels and the reason is easy to grasp.

Today Noble directs SFC's efforts to risk nearly $15 billion of the taxpayers' money in the next eighteen months in order to subsidize energy projects. SFC is offering supports of up to $67 on a barrel of oil that costs $29 on the open market. Owning oil and gas rights, the Noble Inns hotel chain, and various real-estate holdings. Noble is more accustomed to making money than throwing it away. But the fanciful demands of Washington politics can apparently induce a man to do just about anything.

Created in a flurry of bipartisan hysteria after the Iranian oil embargo of 1979, SFC was to be the central bank for an entirely new energy industry. The Carter administration hoped SFC would spur the production of several hundred thousand barrels of oil a day by mid-1983. The expected daily output has been cut to 150,000 barrels by sometime after 1990. Nonetheless, congressional leaders strongly support SFC, mainly for the pork-barrel benefits it promises their constituents.

The Reagan White House realized early on that with $100 billion tax and budget deals to swing, it couldn't quibble over SFC's authorization.

The administration needed someone to run SFC, and Noble fit the bill. He had a background in energy; he is a trustee of a family foundation that donated $1.2 million to the right-wing Heritage Foundation; and he had political ambitions, thwarted but not killed by his loss in the 1980 Republican Senate primary in Oklahoma. True, he had long called for the abolition of SFC, but during his confirmation hearings he asserted that he had changed his mind about synfuels because he had "learned a hell of a lot."

"I've certainly had second thoughts about taking this job. I've lost a lot of my old conservative friends," Noble now laments.

Like most good Republicans these days, Noble understands that if he's got to spend taxpayers' dollars he'd better say it's for defense; the buzz words around SFC are "strategic security." Applying the logic of nuclear deterrence to oil markets, Noble explains that "if we just had a little synthetic fuel OPEC would get the message. We shouldn't beat them over the head," he elaborates, "but a 'synthetic-fuels capability' " would be "like having a club under the table with the handle sticking out." Noble feels there is more to fear than OPEC in the Middle East and that the U.S. had better move to fill the oil gap. "If the Soviets ever tried to make a move, this could give us an alternative to sending in troops."

With a little luck, according to Noble, the synfuels program won't cost a penny. "If OPEC restrained its prices just one dollar a barrel because of our capacity to make synfuels, we'd save the $15 billion in just thirty-three months," he claims.

But as he talks about OPEC oil prices, Soviet adventurism, and synthetic fuels, he becomes sheepish, and trails off at the end of his sentences like a schoolboy who's realized the answer he's just made up doesn't make all that much sense.

"It's so totally frustrating at times," he finally concedes, "because everything seems to be going against us—like the price of oil." Low oil prices mean that SFC can't give its money away. Last year, Ashland and Sohio, the only two oil companies that came close to reaching a deal with SFC, withdrew their applications for billion-dollar loan guarantees. Undeterred, SFC has dispatched executives to travel around the United States, Europe, and Japan searching for new investors. Noble, who once denounced SFC as "costly and wasteful," says the "outreach program" is one sure way to make tax dollars "go further."

All that SFC has actually managed to fund is one small project in North Carolina that will produce methanol gas from peat. Noble hopes the technology employed will someday be used in coal gasification plants. He praises the showcase plant as "not inconsequential."

While trying to spend billions, Noble prides himself on cost-cutting. He spent $12 million in operating costs in fiscal 1982, $29 million less than Congress approved. He also works for a dollar a year, although he was entitled to $175,000. Other SFC executives, though, take home some of the fattest paychecks in the federal bureaucracy; the vice president for public relations makes $69,630 a year. Noble defends the hefty salaries as important for attracting qualified businessmen and engineers from outside government. And, indeed, SFC has would up hiring several synthetic-fuels experts who have found that their services are no longer needed in the private sector.

Noble and his board of directors must tell Congress by the end of 1984 whether they want the second chunk of funding authorized by the synthetic-fuels legislation—a staggering $63 billion. Noble doesn't want to stick around any longer than that. He just wants to get a few synfuels projects rolling and then clear out. "I'd much rather be in Tulsa, anyway," he says.

Congressional Record reprint, December 9, 1982
Senate Appropriations Committee statement.

DEPARTMENT OF ENERGY

ENERGY SECURITY RESERVE

The Committee believes that greater progress can be made by the Synthetic Fuels Corporation (SFC) in awarding financial assistance to synthetic fuel project proposals which have been submitted in response to earlier general solicitations. In the Committee's judgment the slow pace of progress by the SFC has been responsible in part for the recent withdrawal by several industrial sponsors from certain of these projects and the withdrawal of other proposals. Unfortunately, while the first solicitation closed belatedly on January 4, 1982, and the second solicitation (which includes proposals submitted under the first solicitation) closed on June 1, 1982, no awards of or commitments to award financial assistance have been made. The Committee believes that this record can, and should, be improved.

In this regard, the Committee notes that over a 9-month period the Department of Energy progressed from the solicitation stage to the granting of financial assistance to three projects under the interim program authorised by the Defense Production Act and the Nonnuclear Energy Research and Development Act of 1974. The Committee wishes to emphasize to the SFC that it must submit its comprehensive strategy to the Congress by June 30, 1984. Therefore, the SFC only has approximately 19 months to complete its initial mission as mandated by the Congress through the Energy Security Act (Public Law 96-294).

Several significant problem areas have been identified by the Committee which the SFC is directed to address as expeditiously as possible. Accordingly, appropriate Committee recommendations are offered, And the SFC is requested to advise the Committee by January 14, 1983, of the steps taken and progress made, to resolve the following problems:

(1) The Committee is disturbed to learn that the SFC, after three general solicitations, is now exploring "targeted" solicitations designed for specific resources bases and potential equity sponsors. The Committee believes that such targeted solicitations should be used only where it is believed they will be timely and effective in achieving the SFC's statutory mandate. Moreover, targeted solicitations must not be allowed to result in delays or, more importantly, be used as a procedural tactic for delay.

(2) The Committee directs that the SFC cease efforts to explore the awarding of financial assistance in support of the demonstration of synthetic fuels from the Naval Oil Shale Reserves. Such efforts by the SFC only serve to divert the resources of the SFC from its statutory mandate. Similar arrangements, suggested by the Department of Energy in 1978, were rejected by the Congress.

(3) The Committee is concerned about the current difficulties that project sponsors are experiencing in arranging equity financing. Overcoming this obstacle is of paramount importance to the Committee. The recent action by the Board of Directors is a positive first step, but in the judgment of the Committee, such action is insufficient to overcome the obstacle.

We therefore recommend that the Board of Directors provide letters of intent or conditional commitments to those projects which may not yet be in a position to enter into final financial assistance agreements with the Corporation, but are sufficiently mature to enter into serious negotiations as to the terms and conditions of financial assistance, with the expectation that full equity formation and final agreement on terms and conditions of financial assistance will proceed simultaneously after issuance of letters of intent or conditional commitments. In the Committee's judgment, more meaningful, near-term commitments are needed from the SFC in order to significantly enhance the ability of project sponsors to achieve necessary levels of equity capital.

In the Committee's judgment, the Energy Security Act allows the SFC to issue letters of intent or conditional commitments, without causing the Department of the Treasury to reduce the Corporation's obligational authority, in the event a financial assistance agreement is never executed or, even if executed, is later canceled before being implemented.

(4) In addition, the SFC should take steps to encourage equity investment in the emerging domestic synthetic fuels industry. In this regard, the Committee is encouraged by the recent effort by the SFC to reach out to investors and urges the SFC to expand that effort even further.

(5) Further, it is important, in order to attract equity capital to synthetic fuel projects, for the SFC to display a greater public openness with regard to its substantive policies. There is a need for more frequent statements of policy or programmatic objectives, such as that announced by the Board on July 15 regarding resource base diversification which provided greater certainty to the investment community and potential project equity sponsors as to the broader goals and objectives of the Corporation. For example, no similar policy statements have been issued with regard to uniformity of terms and conditions of financial assistance. This has led to significant uncertainty and hesitation by potential equity sponsors.

(6) Further adding to the overall level of uncertainty, no meaningful responses have been provided to a number of project sponsors in the previous solicitations regarding major portions of their applications, including financial and marketing plans. The SFC must recognize that while current project sponsors are seeking to respond to SFC requirements for greater equity participation, they are currently handicapped in their efforts to achieve further private sector participation by the lack of substantive SFC review and specific comment on the status and quality of submitted applications. The Committee views this as a minor problem with major adverse repercussions. Successful early resolution of the problem is requisite and should not require significant SFC time and effort and should be limited to those projects found to be sufficiently strong and mature for preliminary negotiations, as defined by SFC guidelines. For instance, it is our understanding that there exists basic loan guarantee and price guarantee documents which have been drafted by the SFC, yet these have not been made available to those projects currently in negotiation. Sharing of these documents with all parties could easily accelerate the entire negotiation process.

(7) Under section 131(u) of the Energy Security Act certain cost-sharing agreements to refine the design of projects are specifically authorized. Cost-sharing agreements are authorized to allow for detailed design and cost estimates prior to the awarding of loans or loan guarantees. The Committee is encouraged by the recent action by the SFC, but the Committee believes that the SFC has not made maximum use of section 131(u) cost sharing to advance proposed projects to awards. However, the Committee emphasizes that any agreements negotiated in this regard cannot be permitted to further delay the final award process, pending completion of preliminary engineering designs.

(8) The Committee is concerned that inadequate communication is being provided the SFC Board of Directors by the SFC staff on the progress of individual project negotiations. Too often project sponsors are frustrated and valuable time is wasted because the SFC staff either have inadequate decisionmaking capability or have not sought adequate authority. For example, there is evidence that the SFC staff did not present the Board, in a timely manner, with recommendation for the use of conditional commitments and may in fact have withheld such information from the Board, (that is, regarding condition commitments). In this regard, some of the SFC staff seem to be more responsive to pressures from Federal agencies (for example, the White House and the Department of the Treasury) than the needs of the SFC Board for timely information. SFC officers must be prepared to fully support the congressional mandated policies and objectives for the Corporation to provide legally authorized financial assistance, and the Committee expects that such support will be forthcoming.

Also, the Committee, and indeed the Senate, continues to be concerned as hearings before the Committee and the Committee on Energy and Natural Resources indicate, with the SFC's history of attempts to stretch its statutory mandate so as to engage in activities that were not envisioned, or specifically precluded, by the Congress. Such self-initiated SFC initiatives only further divert the SFC resources from timely achievement of its statutory mandate. What is needed is more constructive progress toward the award of financial assistance.

United States
Synthetic Fuels Corporation

CONFIDENTIAL

January 6, 1983

MEMORANDUM FOR VICTOR A. SCHROEDER

FROM: Bob Coughlan

SUBJECT: Assignment re: Corporate Communications

Attached is a brief memorandum which summarizes findings and recommendations to date relative to communications matters of concern to the Board of Directors. I will provide additional details for any of the recommendations you wish to have developed further.

Attachment

CONFIDENTIAL

United States
Synthetic Fuels Corporation

January 6, 1983

MEMORANDUM FOR VICTOR A. SCHROEDER

FROM: Bob Coughlan

SUBJECT: Improvement of Corporate Communications

This memorandum presents an assessment of communications considerations and related matters which are, or should be, of concern to the Board of Directors. Recommended actions by which to accomplish desired improvements are also provided.

The material on which this memorandum is based was obtained from interviews conducted with individual Directors during the period between December 7 and 22, 1982, supplemented by information gained from meetings with Mr. Jimmie Bowden, Executive Vice President; Mr. William Rhatican, Vice President for External Relations; Mr. Donald Thibeau, Special Assistant to the Chairman; and Mrs. Joyce Swanson, Administrative Assistant to the President. All interviews were conducted on an informal basis, using an interrogatory approach designed to encourage interviewees to elaborate on matters about which they were most concerned.

ASSESSMENT

By way of introduction -- and before considering concerns of importance to the Directors -- it is useful to point out some significant attributes of this particular Board:

1. A unity of purpose and commitment among all Directors insofar as attainment of the Corporation's objectives is concerned.
2. A mutual respect among all Directors despite differences in the approaches preferred for objective accomplishment.
3. A willingness on the part of the "outside" Directors to provide all necessary assistance to the Chairman and the President in the development and execution of Corporation policies, plans, and programs.

These attributes are particularly important in the current instance because the Corporation's communications problems cannot be solved efficiently until certain related matters are addressed -- matters which require principal attention at the Board level.

Relative to external communications, for example, it is not sufficient to approach our communications problems solely on the basis of improving the mechanisms of communication. We must be equally concerned about "what" we are communicating -- not only in respect to the message itself, but also in regard to the Corporation. Specifically:

1. Our communications must give evidence that we, as a Corporation, are accurate, current, and credible. Accuracy can be achieved by attention to detail. But, if our communications are to be current, we must have an ongoing -- and even anticipatory -- awareness of the interests and needs of our various constituencies. Moreover, credibility requires that we demonstrate, by our words as well as by our actions, the consistency of our policies, the validity of our plans, and the forthrightness of our processes. Whatever may be the credentials of our spokespersons, we will not have an effective communications program unless we are credible as an organization.

2. How we package our communications is also part of what we are communicating about the Corporation. It is relatively ineffective, for example, simply to describe the nature of Corporation interests and the status of Corporation activities. We must present our communications in contexts most meaningful to our audiences; and we must be always conscious of the need to substantiate our image such that support of our mission is seen to be in the National interest for reasons of independence, security, economic growth, and so on. Moreover, our communications must be so presented that they attest to our continuing attention to matters of importance to our constituencies.

3. In a similar sense, the impression given constituents of why we are presenting particular information in a particular manner usually will influence not only their acceptance or rejection of our message, but also their perception of what we are communicating about the Corporation itself. Whether we are disseminating information, initiating an exchange, or responding to an inquiry or a criticism, it must be shown clearly that we are communicating in furtherance of the goals of a Corporation which is responsibly serving as an important instrument of an essential National policy (rather than as the individual who signs the letter or makes the speech)

To date, what we have been communicating about ourselves as a Corporation unfortunately has not been readily accepted or clearly understood by even the constituencies on which we must depend for the accomplishment of our mission. To some extent we can remedy that situation by improving our communications program (as is explained in a subsequent section of this memorandum). However, other, more fundamental management considerations must be addressed as well. In particular, the Corporation must have adequately defined policies in respect to fulfilling our program responsibilities --policies which are compatible with today's economic and political realities, as well as with the requirements of the Energy Security Act. Also, we must have thoroughly developed plans for the implementation of those policies -- plans which are sufficiently detailed in terms of assignment and schedules as to provide both our staff and external constituencies with a clear perception that we know where we are going and how to get there.

It is suggested, therefore, that, inasmuch as it is the Board which ultimately is responsible for mission accomplishment, it is also the Board which should assume responsibility for insuring that necessary policy statements and implementation plans are developed and published. It is suggested further that -- at least for the immediate future -- all Directors should participate more directly in the basic business of the Corporation, namely, development of a national synthetic fuels program and establishment of a comprehensive strategy for the achievement of program objectives. That is not to say that all Board members should be burdened with all of the particulars of project qualification, selection, and negotiation or with the detailed tasks implicit in strategy preparation. It is to say, however, that the Board -- and hence the Corporation -- would benefit greatly from more involvement by all Directors in critique of the processes inherent in program development and in review of the work in process and planned for establishment of the comprehensive strategy.

In that regard, it is significant to note that many of those considerations were brought up by one or more of the Directors during the course of interviews, although not specifically as communications-related concerns. In fact, many other comments of the Directors were expressed in the context of management considerations. Paraphrased, the most commonly expressed concerns of that nature were the following:

1. Corporation management does not anticipate or follow through, but goes from one activity to the other.

2. The Corporation needs more substance and less form; it is too structured, has too many people (and the wrong -- i.e., the bureaucratic -- kind), and should have a stronger staff.

3. The Corporation is not effective in project development because processes involed tend to break, rather than make, deals. For example, industry should not have to wait for the Corporation to respond; the Corporation should always be in the position of waiting for prospective sponsors' responses. Also, because of the pioneering nature of the Corporation's mission, the Corporation should consider projects that are weaker than desired, but do have sufficient substance to merit risk.

4. The Board must meet with sponsor management and be thoroughly informed about projects before being asked to approve the recommendations of the Corporation staff.

5. The Board must have more leadership from the Chairman and better responsiveness from the President.

6. The Board needs a better understanding of what is expected of its members and of the roles and responsibilities of the Chairman, President, and other members of the Corporation staff.

7. The pressures on (and the orientations of) the Chairman and the President may require that they be provided with senior-level professional assistant(s) -- e.g., a Vice Chairman and/or a Special Assistant to the President -- able to initiate and manage special activities. (One suggestion was that a good source would be retired industry executives.)

8. Board members, as trustees, intend to take very aggressive action in solving management and communications problems.

9. Board meetings could be more effective if the "closed" meetings were held before the public meetings. Also, the minutes of the Board meetings are too sanitized when released.

Relative to those concerns, it is useful to point out that, although they have been expressed as management considerations, they were on Directors' minds when asked to comment about communications. In fact, such concerns reflect a serious communications void at the Board level, particularly between the "outside" and the "inside" Directors (i.e., the Chairman and the President).

Numerous specific communications concerns and views were also expressed. Paraphrased, they can be characterized as follows:

1. There is a need to have more unstructured communications at the Board level -- which can only be achieved if there is an opportunity to have nonpublic meetings for useful periods of time.

2. There is a need between meetings for better communications with Board members. In particular, the Directors should be kept informed by telephone of any significant changes in or affecting Corporation activities. The Board should never have to learn from an outside source of the occurence of events important to the Corporation.

3. There should be an acceptable way for individual Directors to communicate with Corporation staff. (The Chairman prefers that such be done through the cognizant VP.)

4. A communications plan is needed now. There is concern that needed improvements in communications will be too few and too late. The ideal is to have every level of the Corporation believably competent. We must convince detractors that the Corporation is acting responsibly and has legitimate reasons for project signoffs. We must convince proponents that the Corporation is sincerely trying to move ahead and that there is no hidden agenda.

5. Directors should be used to get the message out -- but only in a carefully orchestrated and coordinated way.

6. Corporation management does not communicate as openly with the Board as it should.

7. The External Relations staff is less than top quality; one SFC congressional representative was singled out (by one Director) as being a "lightweight." Mr. Rhatican is personally rated as follows: (1) "terribly effective -- liked by the press;" (2) "has good gut instincts, but is a poor organizer;" (3) is too complimentary to the Chairman and the President;" and (4) "is in the wrong slot." (An interesting spectrum!)

8. The Corporation must establish better relations with the Hill. We must be credible there. The Hill supporters must be kept fully informed at all times; and Hill detractors must be worked on. The Hill doesn't understand the Corporation (because of poor communications) and therefore overreacts. The Corporation must be able to insure that there are no surprises in our Hill relationship.

9. Corporation people communicating with the Hill are not the best people for the job. Any Director going to the Hill should be accompanied by Mr. Rhatican, not by an ER staffer.

10. Meetings should be arranged with Senators from each State to let the Hill share in the process of Corporation development.

11. The Chairman should handle the Hill and White House relations. (He does want to be more in charge personally of what goes to the White House, but intends to maintain a fine line between not communicating enough and wearing out his welcome.)

12. The Chairman should go to the White House monthly to meet with Ed Meese.

13. The Administration is "family" and, therefore, should be recognized as having a right to know what's going on at the Corporation.

14. Outreach is a waste of time until the Board has agreed on the basics. After that, the Board must provide very active support to the outreach program.

15. Outreach with industry should be undertaken only by Board members -- preferably two at each outreach meeting, but supplemented by acceptable spokesmen. The Board should deal with CEO's, with followup by Corporation staff with industry staff.

16. Main industry segments to be influenced are the major oil and petrochemical firms -- perhaps only 15 CEO's in entire U.S. need to be involved. Need to develop list of CEO's to be targeted and schedule meetings with all prospective sponsors. Another Director believes major market to sell will be from 4 to 6 companies. Still another Director believes attention should be given to the smaller, entrepreneurial firms.

17. Trade press (e.g., Oil Daily, Oil and Gas Journal, etc.) should be kept well and favorably informed about Corporation activities. Similarly so, all other media.

18. Outreach can be handled in large part by using Board meetings better -- i.e., by holding meetings in cities where CEO's of prospective sponsors are located and arrange for Board and CEO get-togethers.

19. Industry should be so well informed about the resoluteness of Congress and the Corporation to establish a national synthetic fuels program that it will recognize the extent of criticism to be given to industry if a "national" company has to be established because of the lack of industry response.

20. The spring of the year is a good time to influence industry decisions because budgets are developed during the summer.

21. Important points to communicate to industry and to public are that Corporation is not a government agency (in the bureaucratic sense), but, rather, is basically a private-sector entity which can -- and does -- act independently and forthrightly.

22. Corporation must sell itself as credible and important organization to public as well as to more specialized constituencies.

23. Both the Chairman and the President need to be better informed on how to handle the media and the private sector. The Chairman does well at press conferences; the President, in 1 on 1 meetings.

The interviewees were also asked to express their general views on development of the comprehensive strategy. Their responses can be summarized as follows:

1. The strategy must be realistic -- here's what we think and here's why we think so.
2. The strategy should be kept simple, but must address pertinent sections of the Energy Security Act and whatever else is necessary to satisfy Congress.
3. The strategy should be programmatic and must identify potential pitfalls and problems. It must stress diversity.
4. There must be a major effort during the next few months to determine whether or not a meaningful plan can be developed. The Board needs to be certain which options can be accomplished and which cannot.
5. The strategy should be developed by 2 or 3 Board members, assisted by Corporation staff.
6. The Board should set up small working groups of Directors to work out the strategy under CEO direction.
7. Development of the strategy is behind schedule. The wrong guy is at the top.

In summary, it should be evident from all of the preceding discussion that the concerns of the Directors are both substantive and time-critical.

RECOMMENDATIONS

It should be apparent from the foregoing assessment that some time will be required to respond to all of the concerns of the Directors. However, much can be done rapidly to begin to improve the Corporation's internal and external communications processes. A recommended approach is outlined in this section.

Following are the three principal activities which are recommended for immediate attention:

1. Special Meeting of the Board of Directors

   It is recommended that an informal (i.e., unofficial) meeting of all members of the Board of Directors be convened as soon as possible -- preferably prior to the January 20 Board meeting, or, alternatively, immediately subsequent to that meeting -- for the purpose of addressing the following management and communications-related concerns:

   a. The development of such statement(s) of policy as may be required to document the resoluteness of purpose and certainty of approach of the Corporation. The statement(s) should be articulated in sufficient detail and appropriate form for informal review, prior to release, by contacts on the Hill, in the Administration, and in Industry.

   b. The preparation of specific instructions to be used by the Corporation staff for definitization of detailed plans for the implementation of Board policies. The instructions should specify all subject matter to be included in each plan and should establish firm dates for submittal of the plan to the Board of Directors for approval.

   c. The specification of the approach to be used for establishment of the comprehensive strategy -- with particular attention to the scope and nature of coverage to be provided. Such guidelines should be developed with sufficient detail to serve as the base outline for the report to be submitted to the Congress.

   d. The determination of responsibilities to be assumed by the Board for continuing review of the processes of program development and establishment of the comprehensive strategy. Particular emphasis should be given to ways in which such review can serve as an ongoing audit of both management and technical aspects of those two critical Corporation activities.

e. A frank, in-depth, and unstructured exchange of views concerning management matters, including the concerns characterized previously in this memorandum. Attention should be directed also to any desired improvements in the dynamics of the Board or in the relationships between the "outside" and the "inside" Directors.

The meeting should be scheduled for a minimum of 2 days at an offsite location which will provide an optimum environment for discussion. Only members of the Board should be present (and, if you wish, this reviewer). Key Corporation staff should be put on standby for any telephone inquiries that may be required by Board members during the course of the meeting.

(Note: If it is determined that such an informal meeting cannot be held without incurring some legal criticism, then it is recommended that the following alternative option be exercised:

o Establish three temporary committees, as follows --

Executive Committee -- Noble
Schroeder
Monks

Policy Committee ----- Monks
Wilkins
Masson

Planning Committee --- Masson
Carter
Thompson

o Assign responsibility for items a through d above as follows:

Policy Development	Policy Committee
Plan Instructions	Planning Committee
Strategy Guidelines	Executive Committee
Review Responsibilities . . .	All Committees

o Discuss the management topics in item e, above, at a closed Board meeting, as permitted by subsection (c)(6) of 522b of 5 U.S.C.

It should be remembered, however, that use of the committee option should be given the same urgency of accomplishment as that recommended for the informal meeting.)

2. Secretariat Installation

It is recommended that a Secretariat-type operation be installed immediately as a part of the Chairman's office to serve as the networking hub and focal point for all official communications leaving or entering the Corporation. Initially, the Secretariat will also provide support to the Board of Directors -- including the day-to-day requirements of the Chairman and the President -- and to the Communications Task Force (see 3, below). However, in a phased evolution, the Secretariat will also assume responsibility for Correspondence Control and the Central Files (including the Central Project Files). The Secretariat also will ultimately be responsible for the monitoring of all scheduled activities, including those contained in policy implementation plans and the strategy development plan; for the compilation and dissemination of project review materials; and for the flow of all internal communications.

It is recommended that staffing of the Secretariat be as follows:

Director --	Weed
Support Staff --	Floyd Poudrier Shanley

At such time as the Secretariat becomes operational, it is recommended that the role of the Special Assistant to the Chairman be expanded to make him responsible for monitoring all tasks assumed by the Chairman and the President and for insuring that proper support for such tasks is available from Corporation staff. The Special Assistant should also then be responsible for assisting the Chairman and the President to the extent of their participation in the communications program.

3. Communications Task Force

A formal Communications Program for the Corporation should be developed as soon as possible. In the interim, however, it is recommended that a Communications Task Force be established -- to serve for a period of 90 days -- for the purpose of addressing communications improvements that are urgently needed. Assignments suggested for the Task Force, as outlined below, are intended to minimize the time of Board and senior staff involvement, while providing most opportunities for substantive direction and support.* In each instance, the Board Lead designated below is to provide over-all direction to the particular constituency unit's activities, whereas the Staff Lead is responsible for insuring that all required support is made available by other members of the Corporation. The mix of Board and Staff Leads shown is also designed to insure that the development and execution of particular unit activities will benefit from the shared experiences of Directors and Officers most familiar with the constituency involved.

Task Force Implementation and Administration

Board Lead -- Monks
Staff Lead -- Cowan
Advisor -- Rhatican
Coordinator -- Coughlan

Congressional Unit

Board Lead -- Wilkins
Staff Lead -- Ink
Contact -- Alvord**

Administration Unit

Board Lead -- Masson
Staff Lead -- Cox
Contact -- Guthrie

Industry Unit

Board Lead -- Carter
Staff Lead -- Axelrod
Contact -- Semrod

Financial Unit

Board Lead -- Thompson
Staff Lead -- E. Miller
Contact -- Thornber

Media Unit

Board Lead -- Monks
Staff Lead -- Rhatican
Contact -- Hutchison

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*No specific assignments are recommended for the Chairman, President, and Executive Vice President so that they may be available to any unit.

**Contact persons are to be responsible for the monitoring of all information generated or received by that unit.

Because of the diversity of Directors' views as to specifically which approaches should be used to provide better communication of the Corporation's image and position to our various and differing constituencies, no detailed agenda for unit activities is suggested here. In that regard, it should be noted, moreover, that each unit is to function not only as an information disseminator, but also as an intelligence gatherer. Hence, although the communications activities of each unit can be expected to include such common options as conferences, meetings, correspondence, publications, telephone calls, and informal gatherings and briefings, it is preferred that each activity be tailored -- insofar as possible -- to particular individuals and audiences and be based on a continually improving awareness and understanding of our constituencies and their needs.

It should also be noted here that all of the activities of all of the constituency units must be integrated in terms of content, packaging, timing, and approach. Hence it will be required that a close and continued relationship with the Coordinator be maintained by all Task Force participants for the duration of the Task Force activity.

PRESIDENT'S STATEMENT

CLOSED MEETING OF THE BOARD OF DIRECTORS
U.S. SYNTHETIC FUELS CORPORATION

January 20, 1983
Houston, Texas

INTRODUCTION

I will now discuss what I believe to be important considerations pertaining to two key areas with which all of us are concerned, namely, the need for improving Corporate communications and our intention to monitor more closely the development of the comprehensive strategy we are to submit to the Congress in only 17 months. At this time, I want to thank you again for making interview time available and for the forthrightness of your discussions with Bob Coughlan.

I have devoted considerable study to the concerns you expressed during those interviews -- concerns with which I concur, as I'm sure you know. A lot of work remains to be done before I can come to you with a fully developed plan for solving all of those problems; but I think it will be useful if I share with you now some of the approaches I am working on -- approaches which I believe will assist us in achieving more discernible progress toward timely accomplishment of our goals both as a Board and as a Corporation.

First, regarding communications between and among members of the Board -- and, most particularly, between the "outside" Directors and the Chairman and me -- it is clear that there is an urgent need to improve matters. As I see it, the problems are chiefly --

1. A requirement for more attention to the interests of all Directors by the "inside" Directors, and

2. A need for improvement in the mechanics of communication.

I think you will see that both of those deficiencies will be overcome by the measures I will propose for your consideration later in this presentation.

Second, regarding the Corporation's communications with our external constituencies, I am proposing that we, as a Board, with the assistance of selected Corporation staff, make a concerted effort - within the next 60 days -- to develop and implement a very comprehensive and carefully orchestrated communications process. I will outline for you today considerations I believe most important to the success of such a program. (To insure its effectiveness, the program will also address improvements in the Corporation's internal communications.)

Third, I want to bring you up to date on what's being done relative to the recommended comprehensive strategy. As you may recall, I -- with your permission -- assumed direct responsibility for making an in-depth review of that activity; and I have made several important changes in how the staff is approaching that task.

Now, I will proceed to address some of the specific concerns we have.

COMMUNICATIONS BETWEEN AND AMONG DIRECTORS

At the Board level, as I mentioned, certainly there must be more attention at Corporation headquarters in making sure that all Directors are kept fully informed at all times. We on the "inside" are committed to doing a better job at that.

Another important step we can take not only will help us keep everyone better informed, but also will provide us with the means for facilitating communications between Board members, as well as with the Corporation staff and with our constituencies. I'm talking now about a secretariat-type function as the focal point for the Corporation's communications network. The unit need not be -- and will not be -- large. No new staff will be required, nor will any major reorganization. Such a unit can be implemented with the reassignment of very few personnel and the institution of limited procedural changes. Once installed, however, communications can be coordinated and expedited very effectively.

I have available for you a more detailed description of the functions and staffing of the secretariat unit I recommend. If you agree with me that such a unit should be installed, I will initiate action immediately to insure that the unit is operational before the next Board meeting.

COMMUNICATIONS WITH OUR CONSTITUENCIES

Another major concern we all share, of course, is the matter of our communications with our constituencies. I am developing a comprehensive and, I believe, practical program for improving such communications, a program which I intend to propose for your adoption at the next Board meeting. However, I believe there is one other consideration we must also address that impacts directly on the whole matter of communications.

Specifically -- although we must be concerned about how and what we communicate as a Corporation, we also must concern ourselves with what our message is to be from a programmatic standpoint. All of us here recognize very well the difficulties we face -- even with our supporters -- because we have not yet been able to put project money at risk as rapidly as the developers of the Energy Security Act may have intended. Perhaps part of that problem has been the internal processes we have used -- a matter which all of us have been working on in recent months. But, equally important as a message is what can -- and should -- be expected by the Congress and our other constituencies insofar as our activities for the next 1-1/2 years are concerned. We must decide which national resources, reserves, and technologies we are going to pursue, and the extent and priorities of their development; and we must be able to substantiate clearly and definitively our reasons for so doing. (Such was my intent in sending you the "what" scenario earlier this month. I assume we will be discussing that later today.)

The message we give must be convincing to everyone -- supporters or detractors alike. But we must agree among ourselves first -- and, having done so, we must speak with one voice, at least insofar as our public utterances are concerned. (I probably have more problems with that requirement that any in that I am a total believer in the delegation of authority, responsibility, and accountability -- each interconnected. But I do ask for specific input on means for avoiding conflict and implementing a damage control mechanism, particularly in the outreach initiatives and speeches, lest public utterances be treated improperly by the industry and have exacerbated effects on the pride, confidence, boldness, and understanding of SFC officers and staff.)

To get back to other aspects of our communications situation, I'll just cover briefly some of the principal elements of the communications program now being developed:

1. I intend to propose that we use a carefully coordinated and integrated approach insofar as the use of all of our personnel resources is concerned -- and that includes all of us. I suggest that each Director participate in a scheduled program that addresses all constituencies in an orchestrated series of communications activities. Corporation staff will base the program on a careful assessment of the interests and needs of our constituencies and of the most effective means for establishing and maintaining a meaningful dialogue with them all.

   As the program is being developed at present, it will be suggested that each "outside" Director be tasked to participate in at least two scheduled events per month, other than the necessary Board meeting, as well as to be available for ad hoc requirements which come up and can be fitted into his business routine. The Chairman and I will devote more attention than we have in the past to developing the Corporation's relationships here in Washington, but will do so as part of the coordinated program under which all of us will be operating.

In that regard, I intend to make sure that all of us in the communications forefront are provided with all necessary institutional materials, meeting coverage, speechwriting, and so on. Moreover, this will require that in-depth briefings -- on as frequent a basis as any of us request -- be available on both in-process and anticipated activities that might impact our individual or Corporation relations with our various constituencies.

2. My intention is to propose for your consideration establishment of a Synthetic Fuels Information Clearinghouse that will identify this Corporation as the national focal point for information on synthetic fuels. Together with coordination of the Corporation's existing information activities and the existing activities that deal with various of our constituencies, the Clearinghouse would complete the spectrum for informational support in a comprehensive external communications program. Moreover, unlike our existing information programs, which are reactive, the Clearinghouse would be an active, initiative-taking information facility.

   I also have available for you a summary of the scope of the functions of the Clearinghouse, which is to be staffed by existing personnel.

INTERNAL COMMUNICATIONS

The communications program under development also addresses improvements I intend Jimmie to require in the Corporation's internal information flow. I am currently reviewing options for an accountability system which will coordinate, facilitate, and enhance the quality and effectiveness of our internal communications so that Corporation staff may be able to respond more efficiently to the policies, plans, and programs established by the Board.

Such is the overview, if you will, of what's now under development for the improvement of our communications. I am prepared to discuss any of those areas in more detail if you wish.

SYNTHETIC FUELS INFORMATION CLEARINGHOUSE

Outline of Functions

The United States Synthetic Fuels Corporation is reviewing the establishment of the Synthetic Fuels Information Clearinghouse, comprising programs and activities intended to:

(1) Identify the U.S. Synthetic Fuels Corporation as the national focal point for technical information on synthetic fuels by fostering an understanding of the mission and programs of the U.S. Synthetic Fuels Corporation and the synthetic fuels industry.

(2) Serve, as primary users, the various external constituencies of the Corporation by providing, or facilitating access to, reliable information on synthetic fuels; and by monitoring and anticipating the information needs of these user communities.

(3) Establish an efficient response mechanism for inquiries, including:

- o referral to verified sources of technical information
- o provision of SFC-developed information packages
- o feedback regarding constituency requirements and attitudes.

(4) Provide information support to conferences/meetings.

(5) Establish a registry of synthetic fuels information sources (from government, industry, academia, etc.) including print collections, data bases, on-going research, publication activities, etc.

The organizational entity under which this program is to exist is yet to be determined. The Clearinghouse will not overlap with the existing Public Disclosure Office; but, rather, will complement that activity by providing information of a scope beyond the Corporation's public disclosure responsibilities and under an active, rather than a reactive, dissemination program.

The Synthetic Fuels Information Clearinghouse, together with the Corporation's existing information programs and existing constituency liaison activities, completes the spectrum for support of the Corporation's comprehensive external liaison program.

January 20, 1983

DRAFT PLAN

SECRETARIAT

U.S. SYNTHETIC FUELS CORPORATION

The Secretariat shall serve as the processing center and repository for all official SFC communications and shall be established in three phases as follows:

Phase I (to be initiated immediately)

The Secretariat shall provide direct support to all members of the Board of Directors and shall perform the following specific functions --

a. The processing and transmittal of correspondence and other information materials prepared or received by the Corporation for use by individual Directors or by the Board in the aggregate.

b. The monitoring of selected scheduled and unscheduled activities of individual Directors and of Corporation staff.

c. The establishment and maintenance of an operations center which shall serve as the focal point for apprising all Directors of the status of any Corporation-related activity with which they are concerned.

d. The coordination of all activities of Corporation staff necessary to support each Director's participation in the USSFC communications program and in such other programs as may be required by the Board.

e. The provision to Directors not resident at Corporation headquarters of administrative, secretarial, and clerical assistance essential to the accomplishment of their responsibilities as Board members.

f. The provision to Directors resident at Corporation headquarters, including the Chairman and the President, of such administrative, secretarial, and clerical assistance as may be required from time to time by those Directors or by their immediate staffs.

g. The establishment and maintenance of such records, logs, indices, schedules, and related documents and files as are necessary for the orderly and efficient accomplishment and accountability of tasks implicit in items a through f, above.

January 20, 1983

For Phase I, the Secretariat staff shall be comprised of a Director, an Administrative Assistant, and a Senior Secretary, all of whom shall be internal transfers, without replacement.

Phase II (to be initiated April 1, 1983)

The Secretariat shall assume the additional responsibility for operation of the Corporation's Correspondence Control system and for establishment and maintenance of the Corporation's Central Files facility (exclusive of the Central Project Files). Staffing of the Secretariat shall be increased by one clerk, who shall be an internal transfer, without replacement.

Phase III (to be initiated June 1, 1983)

The Secretariat Central Files facility shall be expanded to incorporate the Central Project Files. In addition, a Program Review Center shall be established for use of the Board and senior Corporation staff. Staffing of the Secretariat shall be increased by one professional and one clerk, both of whom shall be internal transfers, without replacement.

January 20, 1983

E.E.Noble, Chairman
United States Synthetic Fuels Corporation
2121 K Street, N.W.
Washington, D.C., 20586

Dear Mr. Chairman,

The undersigned, being duly appointed and serving Directors of United States Synthetic Fuels Corporation ("SFC"), have indicated to you on many occasions over the past six months, individually and jointly, privately and in open and closed meetings, our concern over the management of the corporation. We write in order to make unmistakably clear (1) our continued conviction that management is impeding the Board of Directors in attempting to discharge its duties under the Energy Security Act; (2) our conclusion that there does not presently exist in SFC a system of organization to fix responsibility and promote efficiency; (3) our belief that the appointment of the incumbent as President of SFC should be terminated ; and (4) our determination that the Directors should be involved with you immediately in developing a new system of organization, establishing new offices, and considering anew the appointment of officers.

This is, therefore, our formal request of you as Chief Executive Officer responsible for the direction and management of SFC:

1. To investigate the meeting between two directors of SFC on March 23 and 24 during which certain agreements were alleged to have been reached with respect to the exercise of their respective fiduciary powers as directors. Each of us has told you repeatedly of our concern over this meeting, so it does not seem necessary here to repeat the names of the concerned directors. However, if you are in any doubt as to what we have reference, we count on you immediately to communicate with any one of the undersigned. We require that you provide the Board with a written report of your conclusions as to what took place at this meeting, the propriety of the meeting and any agreements arrived at there, together with a summary of the actions that you propose to take with respect thereto. It is widely known that this meeting took place. Rumour as to what was agreed abounds both inside and outside the corporation. The Corporation has waited over long to take appropriate curative action. It is absolutely essential that this matter be dealt with in a definitive manner at once. We need and require the above mentioned formal report at or before the May 26, 1983 Board meeting;
2. To make suitable arrangment for termination of service of the incumbent President of SFC at or before the May 26 Board meeting;
3. To appoint a committee consisting of yourself, Mr Wilkins and Mr. Bowden to develop for the Board's prompt consideration and approval at the scheduled meeting on June 30, 1983 a new organizational plan for SFC.

In the event that you are not agreeable to carrying out each of the foregoing items 1 through 3, this is our formal request that you cause each such item to be specifically included and listed in the agenda for the public portion of our scheduled May 26 Board meeting. Unless we hear from you to the contrary, therefore, we will rely either that you will deal with requests set forth above as 1-3 in accordance with their tenor or that you will cause them to be placed on the agenda for discussion and action at our open Board Meeting in Tulsa in two weeks time.

Respectfully Submitted,

JBC, HW, RAGM

QUESTIONS FOR THE RECORD FROM SENATOR CARL LEVIN

(1) Could Mr. Thibeau provide information estimating how many times he has been present at meetings of two or more Board members? After how many of these occasions has he mentioned the propriety of topics discussed at such meetings with the Inspector General? With other members of the Board?

(2) When questioned by Senator Levin during the hearing on July 27, Mr. Schroeder said he had corresponded with Mobil Land Corporation concerning a request made by Mr. Masson:

> Mr. Schroeder. I don't believe I wrote, but I believe I did write the man to thank him. But I think the matter has been made -- I mean, the correspondence has been made available.
>
> Senator Levin. The correspondence has what?
>
> Mr. Schroeder. The correspondence that did pass has been made available and certainly is available now. I will see that you get it.

Please provide this correspondence to the Subcommittee.

(3) Mr. Masson told the Subcommittee during the hearing on July 29 that Mr. Schroeder had written to him about contacting Mobil Land Corporation:

> Mr. Masson. Subsequently to that, at some time, two or three weeks later, he wrote me a memo, indicating that here's a man's name at Mobil Land; he is expecting your call; would you call him and ask him...

Senator Levin asked if we could have a copy of the memo and Mr. Masson responded:

> Senator, we will have to get that from Vic Schroeder. I thought you would want it, and I asked my Secretary for it. I couldn't find it. I am sure Mr. Schroeder will have a copy of it.

Please provide this memo to the Subcommittee.

United States
Synthetic Fuels Corporation
2121 K Street, N.W., Washington, D.C. 20586 (202) 822-6300

Victor A. Schroeder
President
202-822-6400

August 26, 1983

Sue Collins
Staff Director
Subcommittee on Oversight of
  Government Management
Senate Governmental Affairs Committee
SD-326 Dirksen Building
Washington, D.C. 20510

Dear Ms. Collins:

Attached are responses to questions for the record as submitted by Senator Jeff Bingaman and Senator Carl Levin. Mr. Masson had told the Subcommittee that there was correspondence from me regarding Mobil Land Corporation. Neither my recollection nor my files have disclosed any such correspondence.

If you have any questions or need any further assistance, please call Rusty Mathews, Director, Senate Relations.

Sincerely,

Victor A. Schroeder

Attachments

United States
Synthetic Fuels Corporation

August 22, 1983

MEMORANDUM FOR BILL RHATICAN

FROM: Don Thibeau Thibeau

SUBJECT: Questions for the Record from Senator Carl Levin

My responses to Senator Levin's questions for the record are as follows:

1. "Could Mr. Thibeau provide information estimating how many times he has been present at meetings of two or more Board members."
    - My attendance at formal and informal gatherings of two or more Board members is intrinsic to the execution of my duties as Executive Assistant to the Chairman of the Board. A best estimate would number in the hundreds.
2. "After how many of these occasions has he mentioned the propriety of topics discussed at such meetings with the Inspector General?"
    - Once.
3. "With other members of the Board?"
    - Once

cc: Edward E. Noble
Inspector General

United States
Synthetic Fuels Corporation
[illegible] K Street, N.W., Washington, D.C. [illegible] [illegible]

Victor A. Schroeder
President
[illegible]

April 11, 1983

Mr. Wolf B. Thiersch
Mobil Land Development Corporation
Three Twin Dolphin Drive
Suite 200
Redwood City, California 94065

Dear Mr. Thiersch:

I obtained your name and address from Harold Singleton who is a friend of long standing. Harold and I worked together in the construction and development business, starting in the 1950's. I am writing because of a business and professional request of Milton M. Masson of The Ellers Masson Group in Phoenix who is interested in discussing consulting work with you. Anything that can be done to initiate communication between you and Mr. Masson would be appreciated. He can be contacted at:

The Ellers Masson Group
725 West McDowell Road
Phoenix, Arizona 80057
602 257-8525

Thank you for your consideration of our request.

Sincerely,

V. Schroeder

Victor A. Schroeder

Mobil Land Development Corporation

3 TWIN DOLPHIN DRIVE, SUITE 200
REDWOOD CITY, CA 94065
TELEPHONE (415) 594-4200

April 18, 1983

Mr. Victor A. Schroeder
United States Synthetic Fuels Corporation
2121 K Street, N.W.
Washington, D.C. 20586

Dear Mr. Schroeder:

Thank you for your letter of April 11, 1983 in which you make us aware of Mr. Masson's interest in working with Mobil Land in Phoenix.

We have, at this time, no projects in Arizona; however, it is possible that we may acquire property there at some time in the future. I will place your letter on file in the event that we will require consultants' services in Phoenix, and we will, at that time, be glad to establish contact with Mr. Masson.

Thank you for your interest in Mobil Land Development Corporation.

Yours very truly,

W. B. Thiersch
President
Western Division

WBT/pnp
0012A

cc: Mr. Harold Singleton

cy to M. Masson

Questions For The Record From Senator Jeff Bingaman

Subcommittee on Oversight of Government Management

Hearing Concerning Management of
United States Synthetic Fuel Corporation
July 27, 1983

Questions for Mr. Vic Schroeder, SFC President:

(1) What procedure does the Corporation follow when evaluating two or more projects which are perceived to be competitive with one another? Specifically , do you attempt to isolate the staffs assigned to each such project so as to avoid information trading, as, for example, in the situation where one project has provided detailed market information which could be used to assist another, competitive project?

(2) Have there been instances in which SFC Board members have excused themselves from consideration of particular projects because of conflicts of interest? If so, would you please describe, in general terms, the types of situations in which this has occurred?

(3) How are staff recommendations transmitted to the Board? Are written memoranda prepared, or are the recommendations presented orally? Are minutes kept of the Board's closed-door sessions? Are all project memoranda collected and filed somewhere? To what extent would the items in such a file be made available to project sponsors and/or the public? What sort of written explanation is provided by the Corporation to a project sponsor whose project has been rejected by the Board?

Questions and Answers - Subcommittee on Oversight of Government Management

Question 1: What procedure does the Corporation follow when evaluating two or more projects which are perceived to be competitive with one another? Specifically, do you attempt to isolate the staffs assigned to each such project so as to avoid information trading, as, for example, in the situation where one project has provided detailed market information which could be used to assist another, competitive project?

Answer 1: The Corporation has developed and follows uniform evaluation procedures for all projects under consideration. Basically, these procedures, which are spelled out in each solicitation, assess the state of development and essential strength of each project. If the project cannot demonstrate that it is strong according to the strength criteria (i.e., technical, financial, managerial, corporate commitment, environmental and marketing of product), it is not considered further. Those projects that are strong enter negotiations for financial assistance. The Board selects from strong projects that complete successful negotiations in each resource area (i.e., coal, oil shale, and tar sands/heavy oil). The bases for selection are outlined in the Energy Security Act and include criteria such as least federal assistance per unit output (considering product value) and programmatic factors concerning project replicability and contribution to diversity of resources and technology.

The Corporation makes no attempt to isolate staffs evaluating different projects. Indeed, to the contrary, experience across projects provides the basis for sounder analyses more likely to identify potential problems in projects. The evaluation teams, however, scrupulously avoid passing project-specific information from one project to another. The Corporation is unaware of any instance where a project may have gained a competitive advantage, however inadvertent, from this practice.

Question 2: Have there been instances in which SFC Board members have excused themselves from consideration of particular projects because of conflicts of interest? If so, would you please describe, in general terms, the types of situations in which this has occurred?

Answer 2: As evidenced by the minutes of the Board of Directors meetings made available to the subcommittee, the Board has considered a number of reports concerning financial interests of individual members of the Board. Under the Corporation's conflict of interest procedure, prior to each meeting at which the Board is expected to vote on particular projects the Ethics Officer reviews the information concerning their individual financial interests made available to the Corporation by each member of the Board. This review is made in order to ascertain whether there are any interests pertinent to projects to be acted on at the meeting which constitute financial interests within the purview of section 118(c) of the Energy Security Act. Where such an interest exists, the Director is alerted and advised to recuse himself from voting on matters affecting the

Answer 2: (Cont'd)

particular project unless the Board, in accordance with section 118(c)(3) of the Act, determines that the interest is too inconsequential or too remote to affect the integrity of his vote. The Ethics Officer then reports the interest to the Board along with his recommendation and the Board makes its determination. Because financial interests pertinent to a particular project are reported each time a matter involving the project is to come before the Board for action, certain interests have been the subject of more than one report to the Board. The interests considered to date have been minimal in relation to the financial resources of the directors concerned and have been determined by the Board to be too inconsequential or too remote to affect the integrity of their votes on matters before the Corporation. Consequently, while individual Directors have always recused themselves pending the Board's determinations respecting particular interests, none has found it necessary to recuse himself permanently because of a conflict of interest.

Question 3: How are staff recommendations transmitted to the Board? Are written memoranda prepared, or are the recommendations presented orally? Are minutes kept of the Board's closed-door sessions? Are all project memoranda collected and filed somewhere? To what extent would the items in such a file be made available to project sponsors and/or the public? What sort of written explanation is provided by the Corporation to a project sponsor whose project has been rejected by the Board?

Answer 3: Staff recommendations are transmitted to the Board principally via written memoranda. The summary conclusions and back-up findings generally are presented in 15 to 20 pages of strength evaluations which are sent to the Board a week in advance of the Board meeting at which a project will be considered. A brief oral summary of the recommendations on each project is also usually made at the Board meeting. Minutes are kept of these sessions.

Complete files are maintained on each project, including the evaluations submitted to the Board. These materials are available to the public upon request pursuant to Section 121 of the act, which authorizes withholding only those portions of the material that are exempt from disclosure according to subsection (b) of Section 552 of title 5, United States Code. Each project sponsor is notified in writing of Board action on the project and the key reasons for the action. If the sponsor desires a detailed oral debriefing of those reasons, the sponsor can, and usually does, take advantage of the opportunity.

CONFIDENTIAL

"PROJECT INDIGO" (INDUSTRY SURVEY) Cohen (13)
Synthetic Fuels Corporation, Office of the Inspector General

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INTRODUCTION

Pursuant to Section 122 of the Energy Security Act of 1980, the Inspector General of the United States Synthetic Fuels Corporation (SFC) initiated a survey of industry's perceptions of SFC activities during the First and Second Solicitations. The objective of this undertaking was to identify strengths and weaknesses in the methods and procedures utilized by the SFC to conduct its business. The data acquired would provide a foundation upon which to measure the performance of the SFC over the past two years. It was assumed that the SFC Board of Directors and senior SFC management might wish to use the information acquired in this survey to seek ways to improve its manner of conducting its business and to decide whether to make changes in SFC policies and procedures.

Individuals interviewed in this survey were selected from organizations which have submitted projects to the SFC, potential equity sponsors for these projects, investment banking houses, engineering companies, and law firms which have had direct interface with the SFC. Other interviewees were contacted from among the senior decision-makers of sponsors who had little direct personal contact with the SFC, but whose opinions were shaped by reports from their subordinates who had visited the SFC on a continuing basis. An attempt was made to cover a broad spectrum of representatives of serious project sponsors and individuals associated with them.

Most interviews were conducted in person. Each interviewee was briefed on the nature of the survey and the independent status of the Inspector General as described in Section 122 of the Energy Security Act. Sources of information in this survey were informed that their comments would be non-attributable. To the extent possible, the discussions were conducted on a non-project specific basis.

It should be noted that comments of some of the sources contacted in this survey are understandably affected by their own experiences at the SFC. This would include whether their project succeeded or failed in its evaluations or in its search for financial assistance, and whether they felt they were properly treated by the SFC during discussions of their project proposals. In other situations, the remarks may have come from only one or a few individuals, and not from a majority of sources contacted. However, they are believed to be of such significance that they have been included in this report and appropriately described as coming from one or a few individuals only. It should also be pointed out that some of the general impressions we have included may be at a variance with some of the specific comments on the same general topic which came from only a limited number of sources.

One must also bear in mind the general economic conditions during 1981-1982 as they impacted upon sponsors who submitted projects to the Corporation. Many of the criticisms of the Corporation should be weighed against the general business conditions faced by project sponsors at the time, and the problems generated as a result of these circumstances for both the sponsors and the SFC. By the summer and fall of 1982, various synthetic fuels initiatives were being scaled back and several large projects cancelled. In addition to industry's reevaluation of the economic picture, the Corporation itself came under increasing pressures from both industry and the Congress for its slow pace of activity. It was during this restive environment that the Corporation moved ahead to take its first decisive steps. The Letter of Intent for the First Colony project in December 1982 was followed by announcements that several other projects were close to receiving similar encouragement from the Corporation. Thus, the last quarter of 1982 can be considered something of a watershed in the Corporation's history. This survey concentrates on the earlier period through the Second Solicitation.

The Inspector General was very pleased with the courtesy and cooperation extended to him, the Deputy Inspector General, and the members of the Inspector General staff who assisted in this survey. Most of the interviewees expressed their appreciation for the opportunity to discuss "off the record" their experiences with the SFC, and they displayed a willingness to offer observations, perceptions and constructive criticisms. Comments of those interviewed have been aggregated into specific topics considered to be of greatest interest to the SFC. In accordance with the non-attribution commitment, no person, company or project has been identified in this survey.

INTERNAL ORGANIZATIONAL STRUCTURE AND INTERRELATIONSHIPS

General Attitude

The approach of the SFC has been straightforward, friendly, candid and helpful for the most part. The performance and attitude of most SFC staff level personnel are good and have been improving. Although not rigid, the SFC approach is sometimes bureaucratic and occasionally slow, but improvements have been made to accelerate progress in recent months. Nevertheless, the SFC has performed considerably better than most U.S. Government agencies; it is easier to deal with, and has a more aggressive posture. Many industry representatives faulted the SFC legal staff for materially slowing down progress in areas not directly associated with legal issues. Another comment was that the SFC has sometimes been too careful, and appears to lean over backward in not seeming to favor a particular project. This attitude inhibits genuine communication about whether a project is really competitive or perhaps should be withdrawn because of fundamental weaknesses. Although newly evolving as an organization, nonetheless the SFC took too much time in solidifying its procedures and general approach.

Some project sponsors feel that there is a "government procurement process" to be contended with in dealing with the SFC, whereas the Energy Security Act intended that the SFC be more flexible. Some arbitrarily imposed deadlines are probably necessary, but a relentless timetable is not appropriate for an organization such as the SFC. Some sources commented about "too many" former federal employees on the SFC staff who contribute to the philosophy that "we're buying the stuff for the government; therefore, we'll set the specifications".

Overall, industry gives the SFC fairly high marks for the substantial progress it has made during the past few months in tightening its organizational structure, moving a number of projects into negotiations, and improving its overall effectiveness.

Staff Officers' Authority

There is an almost unanimous view that the SFC staff, although quite professional, does not have the requisite authority to function effectively. As an example, several industry representatives described the SFC as operating at three levels -- project staff, the negotiation team and the Board of Directors. In meetings between project staff officers and sponsors, it was often clear that the SFC officers were not sufficiently aware of corporate policy. They would defer on a specific answer until they checked it out with a higher echelon. Several project sponsors believe that the SFC staff officers who meet with them in substantive discussions should have the same level of authority as their own representatives, and should be able to speak for the SFC, subject to Board approval, in the same manner as sponsor representatives. One project sponsor noted that some projects did not appear to get the full attention of the SFC Board because the staff is spread too thin, and cannot give adequate attention to several projects at the same time. Another sponsor remarked that, when the general meetings broke up into smaller groups, a more positive SFC leadership would often emerge which was helpful in making progress. The SFC initially had "too many people" at meetings with sponsors, but more recently has reduced its numbers. This reflects a greater sense of maturity on the part of the SFC. Sponsors made the critical observation that some SFC officers have been assigned to handle too many projects, and others have been reassigned while their particular project is still moving through phases within the SFC process.

Another comment frequently made was that the SFC should act more like a venture capital organization. Instead it is acting like an architect-engineer. The SFC needs the skills of venture capital trained people who could shift emphasis away from project engineering details, and place a more concentrated effort on obtaining the relevant financial data which is more significant. The SFC definitely needs a few key personnel with a sound grasp of project finance, people who have dealt with financing large, high-risk equity ventures. By contrast, SFC decisions are apparently made with an overemphasis on technological considerations which involve time-consuming requests for engineering design and cost data. The SFC must realize that the speed with which a project is put together is often vital to its success, and a schedule more palatable to project sponsors should be formulated. The SFC should learn a simple private sector lesson. When a project gets started and reaches a peak, it has to move! It cannot stay in a holding position for a long period of time waiting on the SFC. That costs too much money. Equity investors lose confidence and interest. Economic conditions change. A project will miss its market timing and its brief window of opportunity unless prompt action is taken.

Internal Relationships

A recurring theme is that the SFC staff has failed to coordinate among its own elements. Sponsors have explained certain situations at one point only to be asked the same question later by another echelon of the SFC. Comments were made about conflicting statements and apparent disarray between staff level and senior SFC management. This was disconcerting to project sponsors who were spending considerable sums of money to move their projects along in accordance with what they believed SFC policy to be. There is a perception that SFC senior management appears to lack confidence in some of its staff level officers. This exacerbates a situation in which the staff does not appear to have sufficient authority to operate effectively. Sponsors wonder whether the SFC personnel with whom they are dealing really represent SFC views.

There is a continuing lack of communication between the SFC project personnel and the legal staff. A common thread running through comments by a number of sponsor's representatives is that there is something basically wrong in the organization of the SFC. The General Counsel appears to "call all the shots" even on non-legal matters; and, therefore, none of his own staff attorneys can speak confidently for the Corporation. This situation produces inconsistencies in SFC positions. Third-party project sponsors feel caught in the crossfire and wonder who really has the authority to make a deal on the SFC side of the table. Stronger SFC leadership is required to resolve these issues.

Another problem is that the SFC Office of Technology and Engineering apparently has an inordinate amount of influence on the way SFC evaluates projects. Once T & E takes a position on a particular project, the other SFC elements tend to go along with that position. The SFC staff is too technically slanted and not sufficiently business oriented. Many sponsors feel that the SFC asks for more technical data than corporate leadership would require to make major capital investments. One sponsor remarked that SFC officers, lacking a broad business background, substitute caution and data collection for experience, thus slowing down the overall SFC evaluation mechanism as a result.

The process of passing a project from the SFC projects staff level to the SFC negotiating team has not been very smooth, with neither SFC element in possession of all the salient facts. This is seen as another example of incomplete communication between staff level and senior SFC management which inhibits the transmission of a complete picture of a particular project to the SFC Board of Directors. Some project sponsors wonder where SFC authority really lies. Are they dealing with the SFC project team staff, senior SFC officers, or the Board of Directors? They ask themselves "where is the game really being played?" Several project sponsors feel stronger leadership by the SFC Chairman and President could alleviate this problem, and convey a clearer understanding of projects to the SFC Board of Directors.

Senior Officers and the Board of Directors

Several sponsors believe it is important for the SFC Board of Directors to set the broad policy guidelines, and leave it to the SFC President to determine how these guidelines are to be implemented. An overly engaged Board of Directors becomes second guessers. On the other hand, senior SFC management must clearly ascertain what the Board really wants and must determine how well its staff understands what the Board needs to carry out its responsibilities. One sponsor feels that better communication between SFC senior management and the Board is essential.

The SFC senior management level is faulted for not being attuned to the ways of Washington, and for its failure to distinguish between routine Congressional inquiries and serious problems with the Hill which deserve special focus and attention by senior levels of the SFC. The SFC Chairman and President have a difficult path to follow in view of recent Congressional pressure to get some synthetic fuels projects underway. This situation is complicated by the fact that many of the numerous proposals submitted to the SFC have come from sponsors who really do not have a great deal of substance or financial backing in support of their project proposals. Large, financially-healthy companies are essential to undertake the substantial risks involved in synthetic fuels projects. They have been comparatively conspicuous by their absence as sponsors thus far.

One project sponsor, commenting on the capabilities of SFC senior management, remarked that none of the officers has had any corporate experience in managing extraordinarily large projects involving the commitment of hundreds of millions of dollars. Another industry representative remarked that there is little engineering background and experience among the various SFC Directors, and that this presents a problem when the Board is evaluating large projects involving a vast amount of engineering design and cost data.

DECISION-MAKING PROCESS

There was almost complete agreement among respondents that the decision-making process at the SFC was too slow. Almost everyone interviewed referred to the serious problems the SFC had in getting started, and that a full Board of Directors was not in place until the fall of 1982. Very little was done throughout 1981 and 1982. A number of industry representatives characterized these as lost years. Several interviewees stated that nothing much seemed to get done until the December 1982 Board meeting. The timing factor was on the minds of many contacts. They believed that the SFC simply lost out and "missed the market" because it did not take positive steps during the summer of 1982 or earlier.

It was asserted by several industry representatives that, had the Corporation not been so conservative and so hesitant, several of the major projects might have been saved by the issuance of a Letter of Intent. One official flatly said the Corporation was six months behind the "power curve". During this crucial period, while economic conditions were deteriorating, industry became increasingly impatient with the SFC's slow moving pace.

The SFC organized itself poorly and apparently did not set up a coherent decision-making process. As a result the sponsors did not know how the system was supposed to work. An unfortunate byproduct of this deficiency was that industry soon had the impression that the staff really wasn't too important in the corporate decision-making process. When it became apparent decisions were being made with little reference to the staff, some sponsors started talking directly to the Board of Directors.

There was much critical comment about the Corporation's inability to make a binding decision on a technical issue (eligibility of heavy oil) which affected one project. The question arose because of ambiguity in the language of the Energy Security Act. Yet the difficulty had been noted at the time the project came before the SFC. More than a year later the matter had still not been resolved, and the sponsors were understandably upset. A great deal of money had been spent on this project, and the Corporation could not seem to come up with a definitive conclusion. This example was cited a number of times to fault the Corporation's procedures. The rhetorical question was asked: "If the SFC cannot reach a decision on a technical matter in over a year, how can it expect to build a synthetic fuels industry?"

The net impression regarding SFC decision-making from all of the interviews was basically twofold. The Corporation has an inordinate difficulty in making decisions. Those which have been made have been very slow in coming; and, as a result, many opportunities to move ahead have been lost. These remarks have always been tempered by the added statement that the respondent fully understood the start-up problems which the SFC has faced.

OBJECTIVES AND POLICIES

Most of the industry representatives expressed concern over the lack of clarity of corporate policies and objectives. A number of respondents felt that the Corporation should have issued more statements and guidelines which would have given industry adequate notice of the Corporation's future plans. Several respondents mentioned that, even when the SFC issued a statement, it was frequently marked "draft". They wondered if the Corporation ever issued a guideline in "final" form. In recent months several documents have been published which are good indicators of SFC policy. These statements include the Letter of Intent for the First Colony project and the Targeted Solicitation. As an example of information which should have been more accessible, one sponsor complained he found out about the SFC's policy on loan to price guarantee "rollovers" from the trade press. The inference which can be drawn from the foregoing is that the Corporation should make a greater effort to issue official policies and procedures to industry more often.

There was universal comment regarding the SFC's policy on project equity requirements. Industry sponsors felt that the Corporation's requirements for equity bordered on the unrealistic. There were some negotiations which ended because the Corporation insisted on a certain minimum amount of equity "at the table". Sponsors held to the position that they could line up additional equity only if the SFC granted them a conditional commitment. This resulted in a "chicken and egg" situation wherein project sponsors, although interested in investing, wanted some positive indication of forthcoming SFC financial assistance. The log jam was finally broken by the issuance of the Letter of Intent to the First Colony project, but many respondents think this form of approach should have been used much earlier. Sponsors of several projects which have been abandoned stated they would have continued their efforts if they had received a Letter of Intent at an early stage.

Many of those interviewed expressed increasing confidence that the SFC would provide substantial financial assistance to viable synthetic fuels projects. The recently issued Letters of Intent are an encouraging step forward regarding SFC commitment. However, the perception persists that the SFC is too cautious and too slow. Only actual execution of large financial agreements in the $1 billion range will remove doubts of SFC intent to put significant sums at risk.

STAFF COMPONENTS

Projects Office

Most industry representatives feel that the Projects staff is competent and hard-working, but that it has been on a "steep learning curve" with significant progress made in improving its performance in the past few months. Most also feel that the staff members have matured and learned a great deal about handling synthetic fuels project proposals during the past year. With only minor exceptions, the Project Team Leaders were given good marks, although a number of sponsors feel that the Team Leaders do not have sufficient authority to maintain tight, coordinated control over their teams. Some project sponsors feel that the staff is not sufficiently business oriented, citing the background of several members who were formerly with the Department of Energy. Most sponsors do not see this as a serious problem, however, and appreciated the informal but professional approach by SFC staff personnel. The senior level of the Projects staff was burdened with a very heavy workload during the first year, but recognized the scope of the problem and worked hard to gain control. They were very considerate of project sponsor concerns, and were helpful in providing answers whenever possible. Although a few respondents commented that it seemed to take a very long time to put a project through the maturity and strength reviews, the majority of industry representatives felt that the criteria were sensible and appropriate.

Office of Technology and Engineering

Comments about this staff component are mixed. A general feeling is that there is too much emphasis in the Corporation on engineering matters, as contrasted to the business aspects which should be the predominant concern. One industry representative commented that senior leadership in the Office of Technology & Engineering (T & E) should have a "feel" for whether a project is viable, and consequently should be able to get along with less engineering data from project sponsors. The approach of T & E is enigmatic to some project sponsors who feel that this staff adopts a generally adversarial attitude in declaring a given project to be technically deficient without explaining in much detail what information is lacking. This situation makes it difficult, time-consuming, and expensive for sponsors to ascertain what is required of them by the SFC. As noted earlier, T & E takes a position on the merits of a project and it often appears that the other SFC components are inclined to go along with this position. One sponsor feels that the T & E people are not impressed with engineering data unless it is provided by one of the major U.S. corporations. Another project sponsor feels that T & E does not have an adequate appreciation for the expense involved for a sponsor to provide the engineering data, to make alterations in the design, and to continue discussions over extended periods of time.

A number of respondents feel that T & E spends too much time in evaluating technological processes already accepted by major engineering firms which have had years of experience in large construction projects. They believe the time would be better spent in weighing the overall viability of the proposed project.

Several industry representatives feel that T & E appears to be too focused along research and development lines, where there is no finite time limit on reaching a decision, and where there is a continuing quest for ever greater refinement in engineering data. This posture can, of course, deal a death blow to a project which has limited funds to commit for engineering data.

Almost all industry representatives said that T & E has not prodded or pushed them to alter their project plans or technology to suit the desires of the SFC. Where suggestions were proffered by T & E, they were helpful and they assisted the project in strengthening its proposal. In some situations, the SFC suggested project downscaling and less financial support from the SFC, thereby enhancing the project's chance of success. In other cases, T & E recommended additional equipment which improved the technology, although adding somewhat to the cost of the project. On another project, the product slate was revised at the suggestion of the SFC, but this change was offered to increase the viability of the project. Many sponsors commented that T & E asks good, hard questions regarding technology, and is generally professional in its approach to technical matters.

Office of Finance

There is a consensus that the SFC Office of Finance has caused many problems for project sponsors by its emphasis on computerized financial assumptions which form the basis for its evaluation of projects. Moreover, these assumptions were not shared with the project sponsors until late in the discussions on a given project. This was irritating to several sponsors who also viewed it as demonstrating a lack of candor. This posture left a bad impression which was accentuated when some of the SFC economic forecast statistics later appeared to have been improperly weighted. Another frequent comment stressed the Corporation's need for some "deal" men who have had experience in putting together major financial projects. One investment banker remarked that SFC was so unprepared at one stage of a financial negotiation that discussions had to be sidelined until SFC data and positions could be better defined. He also noted that SFC financial people, particularly at the junior level, project a negative image compared to what large project "deal makers" would convey. Part of the problem in the Finance Office was attributed to the personnel changes and long absence of leadership at the Vice President level which made it more difficult to formulate policy guidelines around which the staff could coalesce. Another project sponsor commented that, while the Finance Office was not analytically weak, it does not always present its positions effectively.

One major equity sponsor felt a consensus had been reached with Finance officers after several weeks of discussions concerning the basic financial assumptions being used by both parties. The sponsor was then "astonished" when confronted a short time later with a new set of financial assumptions from the SFC with no particular explanation as to why the changes had been made. There appears to be danger in a narrow approach to financial analysis, overemphasizing the abstract. This is particularly so because forecasts of inflation, interest rates, crude oil prices, and similar factors are educated guesses at best. Therefore, the SFC should allow more leeway when applying basic financial assumptions to particular project proposals.

One industry representative commented that the real value in computer analysis lies in the relative ranking of projects. He stressed that one should remember that these analyses are only tools, and do not provide finite answers. He did note, however, that the present SFC Vice President for Finance understands this distinction.

Office of the General Counsel

Industry representatives feel that the legal staff in the SFC Office of the General Counsel (OGC) has involved itself in non-legal issues and, as a result, has materially slowed overall progress at the SFC.

Several sponsors feel that the OGC is extremely cautious, and takes a far too active role in matters normally handled by line components in most corporations. It was suggested that the OGC focus on whether corporate decisions are within the framework of the law and prudent business practice. Yet another sponsor remarked that the OGC has exercised too much authority, and moved into vacuums created by SFC internal weaknesses. Another industry representative mentioned that the OGC's rigidity bordered on hostility, and commented that the OGC was the most difficult component to deal with at the SFC.. The lack of coordination between the SFC Projects Office and the OGC was said to detract from progress. Several industry representatives faulted OGC's "edict" that individual members of the same financial or legal firm can only represent one project at a time before the SFC. The lawyers and bankers affected cite this as one further cumbersome process instituted by the SFC, and one inherently unenforceable. Another individual with broad experience in the energy field suggests the "lawyers were in control" at the SFC, and that their influence is largely negative. This situation has complicated SFC efforts to move forward in the creation of a synthetic fuels industry.

COMMUNICATIONS

The SFC communication with sponsors was generally perceived to be insufficient. Comments ranged from "SFC was not being candid" to a number of statements which implied that the SFC was not prompt in telling sponsors sufficiently early that their projects were in trouble. Many instances were cited in which sponsors learned after a Board meeting that their projects were being dropped, although previous conversations with staff had given them the opposite impression. Also, it was generally felt that the Corporation could have been more forthcoming in discussing project weaknesses. The SFC seemed reluctant to level with sponsors in discussing either the merits or the problems of individual projects. The impetus should have been to help projects along by being supportive, yet at the same time being candid. Several sponsors made the suggestion that the Corporation should institute a series of mid-course briefings during which sponsors would be told the strength and weaknesses of their submissions to date. This would have the desired effect of minimizing the surprises which several sponsors have experienced.

Communications within the Corporation do not get high marks from industry representatives. Those sponsors who have dealt with the Corporation over time have experienced numerous situations wherein one part of the Corporation did not know what the other was doing. They believed that the SFC top management had not made its policy positions known to the staff. They also felt that the Board of Directors was taking action on matters about which it was insufficiently briefed.

Most project sponsors believed that there should have been more feedback from the Corporation, especially during the First Solicitation. This was certainly the feeling during most of 1981 and 1982. A number of sponsors said they felt for a long time that there was a communication void in the Corporation. Questions were asked by the Corporation and documents sent to the Corporation, but nothing came back in return. As one sponsor put it, "There was a sense of reacting to the Corporation but not getting any reactions from the Corporation. It had the flavor of all take and no give." On the other hand, some sponsors admitted that communication is a two-way street. They themselves sometimes failed to present their cases clearly, and did not follow up on problem areas brought to their attention. Industry spokesmen believe the only way to make the process work is to have a steady flow of feedback, and that the Corporation had not done enough in this area.

Nearly all respondents felt the Corporation had not done a good job in cultivating industry. Top management should have been out explaining the SFC program and encouraging sponsors, but this was not done. The Corporation was slow to develop and nurture important industry contacts. One industry spokesman stated that corporate America is not at the SFC's doorstep waiting to get its hands on SFC money. The SFC is learning that it has to get out and sell its program. On the other hand, those sources who had heard of the recently instituted "Outreach Program" were pleased about this effort. The briefing receptions at Houston and Denver were thought to be useful communications tools. They believe an "Outreach Program", if continued and expanded, will improve industry relations.

With few exceptions, the Corporation has performed well in debriefings. Sponsors whose projects had been turned down had few complaints about the procedures used in the debriefings or their substantive and technical aspects. The Corporation was helpful in pointing out deficiencies and making suggestions for improvement.

DATA REQUIREMENTS

Several of the small project sponsors felt that the amount of data required of them was overly burdensome and out of proportion to the size of their projects. This was particularly true when they were obliged to conform to a certain SFC format which involved considerable cost. One interviewee stated that the SFC asked for great amounts of financial data for a particular project but did not even take the time to read it, let alone digest it, prior to the next meeting with the sponsors. Some industry representatives believe that the SFC demands much more information than a commercial bank or an investment banker would require. Although they recognize that the SFC comes under tight scrutiny in dispensing public funds, they also believe the SFC can perform its role with less engineering design data. This is particularly the case when large, experienced engineering firms are involved in the preparation of the data.

Other project sponsors commented that their own corporate procedures require only preliminary engineering and cost estimates to reach a decision on construction. The remainder of the engineering needed is done after the decision is made, but prior to the beginning of actual construction.

Project sponsors believe that requests for data should have been more clearly defined. A recurring problem for sponsors is their perception that the SFC definition of Level II/III engineering is a nebulous area in which very subjective judgmental factors play a role. This creates a dilemma for sponsors who must decide whether to spend large sums of money to increase their project's engineering design level without any certainty of financial assistance from the SFC. These respondents remarked that a Letter of Intent from the SFC would assist a sponsor a great deal in reaching a decision on such a matter. Project sponsors complained that extended discussions were often needed before the SFC could clearly define the amount of additional engineering required.

NEGOTIATIONS

Project sponsors felt that it is not clear where the SFC negotiation team gets its guidance. During the early history of the negotiating process at the SFC, the SFC representatives were so uncertain concerning policies and procedures that it was difficult for them to negotiate effectively. Some sponsors felt that they have negotiated with the SFC in good faith, but have been faced with changing ground rules, changing financial assumptions, and even changes in personnel with whom they had been negotiating. One sponsor compared the SFC unfavorably to the Department of Energy, commenting that, whereas the SFC was more open and forthcoming, it tended to leave issues open and unresolved. The Department of Energy, on the other hand, at least wrestled with one issue at a time and settled the matter. Another sponsor remarked that the actual negotiating process is too time-consuming and not sufficiently focused. In addition, there is a problem of getting into too much detail at too early a stage in the negotiations. This causes both sides to withhold significant information. At times the negotiating authority was diluted when issues, thought to have been resolved at the negotiating table much earlier, were raised again by the SFC attorneys during drafting of the term sheets. There was a feeling that each time the negotiators took one step forward, the SFC attorneys would move them two steps backward.

As the negotiating process was refined by the SFC, it became more precise and better structured. The situation improved to a point where the SFC was offering innovative suggestions on how better progress could be made. These included the concepts of rollover financing and Letters of Intent which significantly facilitated progress toward agreement with some sponsors. The SFC negotiating teams were sincerely trying to assist projects to proceed through the negotiating process.

The senior SFC negotiators received uniformly high marks from industry representatives for their general approach, helpful attitude, receptiveness to criticism, and overall capability as negotiators. The consensus is that negotiations have been conducted very well, and that the general results achieved are commendable. However, the quality of the SFC negotiators declines significantly after its "first team", and industry feels the SFC should be seriously concerned about its lack of negotiating depth and that it should promptly hire some skilled and talented "deal makers".

EFFECT OF TEFRA

There was a strong expression that the passage of TEFRA and the expiration of the Energy Tax Credit have had an adverse effect on individual projects and on the synthetic fuels industry generally. Those projects which had already begun construction were not affected by the loss of the Energy Tax Credit on 31 December 1982. However, all others interviewed felt that TEFRA and the loss of the Energy Tax Credit created a serious problem. They deplored Congress' penchant for changing tax laws as often as it does. Many sponsors pointed out that TEFRA has resulted in sponsors requesting additional financial assistance in direct proportion to their loss of the tax benefits under these two pieces of legislation.

United States Synthetic Fuels Corporation
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July 20, 1983

Mr. Robert A. G. Monks
700 N. Hampshire Avenue
Watergate South, Suite 704
Washington, D.C. 20037

Dear Bob:

This is specifically to raise some points concerning the content and direction of the comprehensive strategy, on which I would like to have your thinking. Obviously, we all want a highly professional report that fully meets the requirements of the Energy Security Act. But beyond this, I think it is up to the Board to give staff some very straight direction about the kinds of additional options we want them to examine, and the manner in which we want this done.

The starting point must be a clear understanding of what the ESA requires in the strategy. I have told the General Counsel's office to arrange a concise but complete briefing on this for the 27th. To digress for just a minute, I understand you have received a schedule for the 27th, which includes an unstructured Board-staff discussion from 4:30 to 6:00 p.m., followed by dinner with a guest lecturer from 6:00 to 7:30 p.m., and then concludes with the structured presentation on ESA requirements.

Once we know what the strategy must cover, then we can decide what additional options we might want to consider. Personally, I have been saying from the beginning that it is my hope that the basic mission of the SFC can be accomplished in Phase I. This is still my hope. It is also my preference that, if we find there is a further need for government assistance to keep the synthetic fuels option alive and well, that it can be done with imaginative, but limited financial incentive mechanisms without a government entity like the Corporation. These incentives might be provided through changes to the tax code, through sale of "futures" as Howard once suggested, through transferable incentives, or possibly through some other incentive concept, or some combination of incentives. I don't know the answer, but I want staff to start looking, and I want progress reports as they proceed.

I'm looking for similar suggestions from you. What do you want by way of options? If you wish to call me or put any thoughts on paper, they would be helpful. I would like us to begin clarifying options for the staff as soon as possible. Once they understand what they are to do, then they can begin to develop a clear, well-thought out strategy for achieving each option, along with an analysis of its costs and potential benefits for the country.

Mr. Robert A.G. Monks
July 20, 1983
Page 2

In addition to your suggestions about options, I would also welcome your recommendations as to how the Board can most effectively work with staff on the strategy. This is a question we have been struggling with for some time. Back in December I asked Vic Schroeder to undertake the responsibility for direct interaction with the development effort on behalf of the Board. This arrangement was never confirmed by the Board, nor fully implemented. More recently, the appointment of a committee for the comprehensive strategy, along with one for projects, was considered by the Board and rejected. The point is, we do need a mechanism to get everybody's ideas and suggestions, and I'd welcome your views on how to assure that the Board is the driving force on the strategy.

Finally, I would also like your thoughts on the Lecture Series we're now engaged in. Do you find it worthwhile? If so, is there any particular speaker you would like us to include in the Series?

On an entirely different matter, I'm enclosing a draft of my proposed testimony before Senator Cohen. I'd welcome any thoughts or suggestions you have on it, or on the hearing generally. The testimony must be finalized and submitted to the subcommittee by COB Friday, July 22.

Best regards,

Ed

Edward E. Noble

Robert A.G. Monks Ram Island Farm Cape Elizabeth Maine 04107

Edward E. Noble, Chairman July 25, 1983
United States Synthetic Fuels Corporation
2121 K Street, N. W.
Washington, D.C. 20586

Dear Ed,

I am glad to have your letter of 20 July and the opportunity to be involved in providing direction for the RCS. There is a bit of a chicken and egg problem in trying to figure out how best to involve our counsel. I would hope to be able to suggest some ideas here that would give Jeff and Andy something specific to react to, as my experience has been that good lawyers inevitably improve on my ideas, but that it is unfair to ask counsel to act both as client and lawyer in giving advice in the abstract.

It seems to me that the legal requirements for the RCS are set forth as subparagraphs A through F (hereinafter ¶¶A-F)in ¶3 of §126 (b) of the ESA.

Under §126(d)(1) it seems possible that SFC could ask Congress for more than a single one year extension. This would be contrary to what I have been assuming. As I look at that section, it tracks many aspects of my own connundrum - "...an adequate basis of knowledge has not yet been developed upon which to formulate and implement a comprehensive strategy..." - and the language permits the interpretation that would allow as many extensions as are needed ("at the expiration of such time as the corporation is permitted" (emphasis added)). I suspect that counsel can give us a clear answer. Such is essential to my further suggestions.

As you may recall, I have felt that the difference between June 1984 and June 1985 (up til now thought of as our only alternatives) would not be material from the point of view of information as to economic and environmental characteristics of projects financed by SFC. On the other hand, if Congress wants us to take all the time needed for an adequate basis of knowledge - in other words, if Congress places such a premium on our RCS as to authorize the continuance of overhead costs for several years - then I would plan and recommend accordingly.

It does seem to me unlikely that my last minute straw-grasping interpretation of ¶126(d)(1) will be supportable. Therefore, the following set forth my feelings, based on the premise that the latest time within which we can timely file the RCS is June 1985:

#1 - Scope

We literally must adopt an express policy for the RCS. Do we want to have a report that brings together in one place the present state of learning on all relevant aspects of synthetic fuels or, by contrast, do we want to limit ourselves to conclusions uniquely drawn from the experience of SFC (and such other matters as may legally be required). My own feelings are adequately set forth in the minutes of our June board meeting, so I will not repeat them except to restate that I am in favor of a "minimalist" solution.

Whether the RCS is filed in 1984 or 1985, we will not have generated from SFC financed projects an adequate basis for conclusions under subparagraphs ¶¶ E and F. Thus, the question is squarely raised as to whether the Board wants (or is legally obliged) to act as a conduit for outside consulting reports that will simply be repackaged and transmitted as part of our RCS. Everything that I have seen or read suggests that no "SFC financed projects" will have passed the normal start up period prior to either of our assumed submission dates. Even if such is hyperbole, the amount of operational data will be limited probably to single plants using shale, heavy oil and peat (if we are lucky) - surely not a basis for thoughtful recommendations.

Each Director will want to consider the desired scope of subparagraph ¶¶A - "recommendations on objectives...". I certainly would want to include what we have learned about the difficulties of (1) placing numerous specific obligations on part-time directors and (2) operating a corporation under a statute where responsibility and authority between the Chairman and the Board are articulated in a contradictory fashion.

Either under ¶¶ A or ¶¶ D, I would want to discuss in detail our experience with the financial instruments and choreography detailed in the ESA. Based on our inability to elicit bidders for $100/ BOE derived from shale, several conclusions should be analyzed: (1) substantial private companies simply will not deal with government even in a form as cosmetized as SFC; (2) We have failed to make SFC credible; (3) A formal competitive framework simply is not feasible. One thing we can conclude is that if $100. is not successful in eliciting interest in a $28.

environment, success is not a matter purely of money. We don't yet know whether direct negotiations will be successful; or indeed if there is any inducement sufficient to develop a coal liquifaction project. Nor do we know whether any financial package less costly than our Convertible Loan Guarantee / Price Guarantee ("We loan you the money, and then we give you the money to pay back the loan.") will elicit private sector interest. Only when these questions are answerable can I feel comfortable in addressing myself to the major requirement of the ESA - the production goals, mandated in §125.

The statute is unequivocal, it is repetitive, it is undeniable that Congress has specifically established production goals from synthetic fuels as the nation's policy. It is not within the power of the SFC Board to modify or to fail to comply with this mandate. Notwithstanding our commitment to exploration of diversity, both in technologies and resources, we must address §125. We know enough now to be able to conclude that shale and coal based plants will not importantly contribute to the goals. We are driven to consider the cost, timing and volumes producible from heavy oils and tar sands. We should even utilize the power to get access to Western Hemisphere reserves like Canadian tar sands and Venezuelan heavy oil (§179).

My comments above are not complete, but may serve to illustrate my feelings that we collectively must decide on the basic philosophical character of the RCS, before we can definitively understand necessary precedent steps and timing.

#2 - Precedent Steps

On the assumption that we will want to be able to report something based on our own experience about (1)coal and (2) direct negotiations, we should not hesitate to make the findings set forth in §131 (b)(4) so that the Energy Committee of the Senate and the Speaker of the House can authorize us to proceed.

We also will need to determine whether to transmit to Congress a "Corporation synthetic fuel action " authorizing Western Hemisphere projects.

I feel that we should aggressively use the financial mechanisms authorized by statute so as to give us market place experience in their receptivity.

Robert A.G. Monks Ram Island Farm Cape Elizabeth Maine 04107

The most important open question in my mind is whether a government sponsored entity can ever acquire a degree of legitimacy or credibility in the private sector so as to permit efficient interaction. Project Indigo suggests that SFC has failed to do so. If we cannot realisticly conclude that a cooperative relationship is feasible, aren't we driven to conclude that government must directly finance and/or operate special purpose facilities in areas that it considers to be in the national interest?

#3 - Timing

When we have decided on a philosophy and on the steps necessary to test it, then we will be able to conclude timing. If SFC is permitted a succession of one year extensions, it is clear to me that an RCS that is responsive to the requirements of Subparagraphs ¶¶ A through F will need several years. If on the other hand, the choice is "84" or "85" I would prefer directly to confront the limited scope of what our experience permits us to conclude and save the operating expenses post June 30, 1984. I feel that deferral up to June 1985 will not really give significant additional operating experience as a basis for the RCS. Of course, more time is always desirable. The only question is balancing costs and benefits.

#4 - Organization

Because the RCS is required to emanate from the Board of Directors, it would be preferable to have its preparation supervised by a committee of the Board. However, I fear that no Director has the time necessary to provide the leadership for such an undertaking (If any one does, I would support their chairmanship of an RCS Committee). It seems to me therefore practical to have the Chief Operating Officer develop a staff and program for this aspect of SFC's responsibilities, keeping in mind the particular needs for continuing involvement by the Board as a whole in developing the final plan.

I find at the present time that my experience at SFC gives me no unique knowledge as to ¶¶ B,C,D & F. I can't believe that the public interest is served by continuing our present levels of overhead so that I can hire consultants to give me a basis on which to develop insights to pass on to the Congress. Surely Congress can do that for itself, without the cost of our operation. Our management challenge has been to organize the resources of SFC so as to develop a practical experience basis for the conclusions we are required to draw in the RCS. If we have not done so, we should recognize this shortcoming directly and (1)either submit a report frankly acknowledging the limitations of our experience or (2) commit ourselves to a process that will last substantially longer than June of 1985, but that will provide the kind of "hard" data that Congress probably intended (maybe, a little impractically). I really am very much opposed to trying to pass off second hand expensive speculation as a helpful contribution to the nation.

Finally, I very much enjoy the lecture series we're now engaged in. I would like to hear from the Congressmen, Senators and staff - past and present - most involved in the ESA who can share with us all a wider perspective.

Best Regards,

R.A.G.M.

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V. M. Thompson, Jr.
Director

July 25, 1983

The Honorable William S. Cohen
United States Senate
Chairman, Senate Oversight of Government
Management Subcommittee
Washington, D. C. 20510

Dear Senator Cohen:

I want to thank you for excusing me from hearings to be held by you as Chairman of the Subcommittee on Oversight of Government Management. July 29, 1983 is a very important date for me. It is the time of a vital previously scheduled appointment requiring my presence in Dallas. Your consideration and thoughtfulness is most appreciated.

I expect to attend the Corporation's Board meeting Thursday, leaving immediately afterward for my appointment in Dallas; however, I expect to arrive in Washington Wednesday and could be available from approximately 4:45 o'clock p.m.

I considered my appointment to this position of part-time director by the President and subsequent confirmation by the Senate a great honor, privilege, and also an opportunity to serve my country. The role of "part-time" director, in my opinion, translates in the private sector to one elected by shareholders to serve with others so elected to direct the affairs of a corporation as set out by the Articles of Incorporation and Bylaws. It suggests one should be generally informed, develop an awareness and purpose, select top management, set goals, and require accountability.

The Energy Security Act establishing the United States Synthetic Fuels Corporation is not perfect legislation. However, after becoming involved, I believe it reveals the care and concern of Congress to efficiently and adequately encourage an industry so vital to the economic and military strength of our country. Government money is everybody's money and nobody's money. The hazards and temptations it offers to its administrators and potential participants is frightening. I am pleased we have been able to operate on approximately 24% of the budget the Act allows.

. . . .

Next month will be the first anniversary of the full Board of Directors, the Fall of 1981 being the time of confirmation of a sufficient number of directors to be a quorum. When one thinks of assembling a staff of scientists, engineers, financial professionals, and lawyers necessary to meet the challenges mandated by the Act in such a short period of time it presents quite a challenge. I think the foundation has been laid. I think a few mistakes have been made as it is not possible to avoid imperfection. I think the diversity of thinking on the Board combined with the qualified talent assembled has and will continue to correct mistakes and progressively strengthen the Corporation.

I would like to give credit for this to our Chairman and Chief Executive Officer. I have absolute confidence in his capacity, integrity, dedication, and loyalty. The responsibility of molding a business Goliath that by law must have in place a diversity of resources, diversity of technology, geographic distribution along with suggested production goals--all of which must be achieved with little or no impact on the environment--is unique.

I believe communication with industry in general and current project sponsors in particular is improving. This carefully molded Goliath has taken shape and is ready for its first steps. It appears the first award is imminent with subsequent awards practically mature and our comprehensive strategy due to Congress next Spring is underway and progressing in a timely manner.

I believe the development of this industry is vital to the welfare of our country and the law providing for this is the least Government intervention possible under present economic conditioning. I further believe the encouragement provided private enterprise is essential as economic conditions, tremendous capital outlays, and long lead times required would never be undertaken without this Congressional foresight.

Very truly yours,

V. M. Thompson, Jr.
Director

VMT:mb

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REPORT ON

INTERNAL AUDIT OF FISCAL YEAR 1982 TRAVEL AND RELOCATION EXPENSES AND EMPLOYEE ADVANCE ACCOUNTS

by

The Office of the Inspector General
United States Synthetic Fuels Corporation
Washington, D.C. 20586

May 1983

INTRODUCTION

In October 1982 the Office of the Inspector General commenced a detailed audit of employee advances, travel, relocation expenses and related costs. The audit was conducted by Mr. John J. Trant, a CPA and a highly qualified internal auditor, now a recent addition to the Inspector General staff. For this engagement, Mr. Trant had been employed as a Consultant.

Because the timing of the Inspector General's audit coincided with the Corporation's fiscal year end audit, an agreement with the corporate Comptroller and the Corporation's outside auditors, Peat, Marwick, Mitchell & Co. (PMM) was reached whereby the audit work in these areas was accepted in lieu of PMM's performing their own year end review. Under this cooperative arrangement, the Corporation received significant benefit by not having to use their own accounting personnel for audit preparation work, by receiving a substantially more detailed review than would have been performed under PMM's normal procedures, and by reducing PMM's staff time thus resulting in a fee reduction.

SCOPE OF THE AUDIT

The audit encompassed travel and relocation expenses of $400,000 and $500,000, respectively. Relocation was examined and scheduled in detail 100 percent for every employee with relocation activity or expense in the fiscal year 1982. Travel and business expenses were reviewed for the fiscal year, tested for the full month of September and for items over $1,000 in other periods.

Individual employee advance accounts totaling $30,000 were examined, detailed and adjusted after resolving differences with employees through a confirmation and interviewing procedure. Travel expenses prior to 30 September of $32,000 were submitted, accrued and charged to expense. Open commitments for relocation expenses determined and recorded through a confirmation and interviewing procedure amounted to $147,000.

SUMMARY OF FINDINGS

In general, the audit has shown that the work of the employees in the Accounting Office is exceptionally conscientious and accurate. There is a major problem in achieving more accurate accrual accounting; in particular, more timely submission and approval of travel and relocation expenses is necessary.

Based on the audit work performed, the travel, relocation and business expense accounts, as adjusted, appear reasonable for the year ended 30 September 1982 and the employee advances appear fairly stated.

Recommendations toward improvements in procedures, policies and accounting are contained in the following detailed report:

1. Accounting and budget reporting would be more meaningful with better accrual of expenses.
2. Improved controls over expenditures for air tickets and travel deposits are needed.
3. Review and approval procedures should be improved.
4. Relocation policy needs certain refinements.
5. A more specific expense reimbursement policy for Directors would be desirable.
6. Nine of ten exceptions reported have now been satisfactorily resolved.
7. A tenth exception involving relocation reimbursements to an Officer/Director has not been resolved.

A minor recommendation involving filing and journal entries has been adopted as well.

The first five report recommendations above have not been adequately resolved. The Corporation's responses to date do not indicate that satisfactory corrective action is planned.

No other exceptions in the compliance with approved corporate procedures, generally accepted accounting principles or governmental laws or regulations were noted.

The preliminary drafts of this report were reviewed by the Manager of Accounting, Director of Personnel, the Comptroller and the Vice President-Administration. The responses received are included in the detailed report as well as comments from the Inspector General noting deficiencies in the respective responses and actions.

The excellent cooperation from all employees in the Accounting and Personnel Offices greatly facilitated this examination.

S. Kenric Lessey Jr.

S. Kenric Lessey, Jr.
The Inspector General

DETAILED FINDINGS AND RECOMMENDATIONS

1. ACCOUNTING AND BUDGET REPORTING WOULD BE MORE MEANINGFUL WITH BETTER ACCRUAL OF EXPENSES

Many costs of prior periods are not being accrued (and simultaneously expensed) at month ends by the Accounting Office. Periodic budget reporting is not accurate and control is lost in that a department's reported performance is improved by delays in submission or approval of expenses.

At fiscal year end 30 September 1982, most of the employee and officer travel expenses had not been submitted to the Accounting Office even though a letter had been issued by the Vice President for Administration to all other Vice Presidents asking that all unpaid travel and relocation claims and other expenses be submitted by 7 October 1982 to facilitate the accounting in the correct fiscal year.

By 26 October, only $8,000 in travel expenses had been submitted and paid; $14,000 had been submitted, but had not been paid either because of relatively late submission or because of inadequate documentation or policy exceptions. An additional $10,000 was not submitted until November. An adjustment of $32,000 was necessary to incorporate these late submissions and to correct the recorded travel expense for the fiscal year. As a result, travel expense was increased by 9 percent for the year and by 23 percent for the quarter.

An adjustment of $147,000 was made to the accrual of relocation expenses at 30 September after employees had been interviewed and written confirmations obtained. This adjustment increased relocation expenses by 25 percent for the year.

RECOMMENDATIONS OF THE INSPECTOR GENERAL

The Accounting Office has advised that it will enforce a recent policy that an additional advance will not be given until a claim has been submitted to clear a previous advance. However, this is acknowledged to be difficult to enforce because the need for an advance can be urgent when a trip is pending. The Inspector General recommends:

a) that travel expenses be recorded as submitted and be accrued if not paid at month-end.

b) that all employees and officers with frequent (i.e., more often than once a month) travel or expenses submit reimbursement requests on a monthly basis.

c) that Vice Presidential secretaries take the responsibility to see that expenses for their departmental employees are filed on or shortly after the end of each month and to submit positive transmittal reports monthly indicating any exceptions, the related reasons and estimated expenses.

d) that open relocation commitments be estimated and reviewed at least quarterly and that more timely submission of claims be provided by a follow-up system in the Personnel Office.

CORPORATION'S RESPONSES

a) Travel expenses as submitted by the end of a month are accrued if not paid at month-end. The accounting records are not held open to accrue expenses submitted after each month end. However, the records are held open at fiscal year end to capture these period expenses.

b) Expense account filing by employees on a minimum of a monthly basis is required by current travel policy. In addition, the travel policy requests submission of a travel expense form within five working days after completion of a trip.

c) A positive transmittal report would only be of use to record estimated expenses at the end of the fiscal year.

d) Procedures have been established to follow-up and record open relocation claims quarterly.

INSPECTOR GENERAL COMMENTS ON CORPORATION'S RESPONSES

The responses do not acknowledge that there is any problem or that the facts as stated in the observation are correct or incorrect. The need for corrective action is seemingly recognized solely on item (d), open relocation expense commitments.

Because Vice Presidents approve expense account claims, it would be a relatively simple matter for their Secretaries to log the claims in and out, to see that submission by employees and approvals by their supervisors are handled on a timely basis, and to advise the Accounting Office of the exceptions so that accrued expenses could be recorded. Review and approval of claims can be made much more effective if claim submissions are made more timely.

2. IMPROVED CONTROLS OVER EXPENDITURES FOR AIR TICKETS AND TRAVEL DEPOSITS ARE NEEDED

The accounting by employees for expenditures made by the Corporation for air tickets and car rental and room deposits is incomplete and inadequate.

These expenditures are charged directly to appropriate expense accounts as checks are written to travel agencies, car rental companies, or hotels for reservation deposits. Individuals are supposed to enter these expenditures on travel claims as memo entries and to attach receipts to their claims. However, these receipts are attached only an estimated 60-70 percent of the time.

Examination of travel billings for one month showed that there are good controls operating through secretaries who order the tickets and maintain logs. They review and approve the semi-monthly billings from the travel agency. This assures that the tickets were ordered and received. However, there is no assurance that all of the tickets billed were necessarily used as intended, because the receipts are not always attached or available and no routine cross-checking is done.

Air tickets can be exchanged and upgraded, downgraded, rerouted, cancelled, and refunded, or can be used by a different person or for personal reasons. For instance, two persons were issued tickets for a trip to Gillette, Wyoming to be made in January. The trip was cancelled, but the tickets saved and used for a later trip in May. In another instance, an employee was able to arrange for a return from Salt Lake City via California at a "SuperSaver" fare so that the personal stopover was made at no additional expense to the Corporation.

Additional expenses are sometimes incurred for air tickets which are personal in nature because of rerouting or stopover charges, but no receivable is recorded for employees. Reliance is placed on verbal requests or follow-up memos to the individual to pay by personal check.

RECOMMENDATIONS OF THE INSPECTOR GENERAL

Employees, officers and directors should be made fully accountable for all corporate expenditures made on their behalf. Claim forms for specific periods or trips should always include all such expenditures. The Inspector General recommends:

a) that all such expenditures be charged as an employee expense advance (accounts receivable) and subsequently be accounted for in monthly reimbursement claims by the individual. (See Attachment A.)

Even if receipts were always to be attached to expense claims, there still would be no assurance that all tickets and advances had been properly used and accounted for, unless all of the individual disbursements for tickets were traced to expense claims. (This is virtually impossible because of the delays in submission noted in the prior audit point.)

b) that air tickets be stamped "Refund to U.S. Synthetic Fuels Corporation Only" so as to preclude negotiation of tickets for cash.

c) that personal expenditures for employees requesting less than most direct routings, stopovers, etc., be recorded as an employee expense advance (accounts receivable) when made.

CORPORATION'S RESPONSES

a) The additional work of charging and reconciling expenses for air fares in addition to travel advances to an employee receivable account would be difficult with the current accounting department staffing and the current manual accounting system. The Accounting Office is looking into the necessary actions needed to perform this reconciliation and additional control function.

Even though employees may not always attach the passenger coupon of the air ticket to the travel reimbursement form, there is other documentation on file that air tickets are purchased for approved business purposes.

b) It is stated that air tickets can be exchanged and upgraded, downgraded, rerouted, cancelled and refunded ... this flexibility (except for direct refunds) is desirable and at times necessary and should be retained.

The travel agent has been contacted and informs that the Air Traffic Conference will not allow an endorsement for refunding directly to the Corporation. Only refunds to the travel agent are allowed and the agent will endorse the ticket in that manner.

c) Personal employee expenditures are recorded as a receivable from the employee when notified. However, the ability to identify personal expenses independently by the accounting department is limited and is the responsibility of the employee and the supervisor.

INSPECTOR GENERAL COMMENTS ON CORPORATION'S RESPONSES

The responses do not acknowledge the facts as stated in the observation or recognize any particular problem. They indicate action as follows:

a) The Corporation states that it is still looking into necessary actions to be taken for resolution although this recommendation was first brought to its attention last November.

The Inspector General does not believe that this recommendation would cause additional work in the Accounting Office. Expenditures for tickets and deposits would be charged to Account 135, "Employee Expense Advances", instead of to a travel expense account. Employees would then account for all corporate assets placed at their disposal. Instead of the present memorandum procedure, an employee's entries for tickets and deposits on claim forms would be included in the totals of the claims and receipts would be attached as well. (See Attachment A.)

b) Tickets are now being endorsed "refundable only to travel agency." This alternative is acceptable.

c) The Corporation agrees with the recommendation but the responsibility for effecting it has been disclaimed by the Comptroller and not assigned specifically elsewhere. Either the Vice Presidential secretaries or the Accounting Office should compare ticket routings with the travel authorization routings.

3. REVIEW AND APPROVAL PROCEDURES SHOULD BE IMPROVED

A high percentage of travel claims for reimbursement are deficient when submitted to the Accounting Office. It is now frequently necessary to question charges and documentation and to seek specific approval or documentation after bringing matters to the attention of claimants and their supervisors.

This indicates that procedures are not well understood and that employees are not being careful to submit claims which are in keeping with approved policy. Review and approval by supervisors seems somewhat perfunctory.

Some questionable claims have been released and paid after only verbal communication or informal initialling by secretaries or administrative assistants. These claims had been approved by appropriate authority initially, but had been rejected or held in abeyance on questions raised by the Accounting Office.

The most common cause for rejection has been meal costs incurred in excess of the allowable $25 daily charge. However, a new policy has raised the maximum to a more realistic level.

RECOMMENDATIONS OF THE INSPECTOR GENERAL

The primary accounting function should be the recording of expenses after mathematical checking and comparing with documentation and inspecting for proper approval. Most questions regarding adherence to approved procedure should be resolved by the individual before submission or by the approver after review.

The Inspector General recommends:

a) that claimants and supervisors be made more aware of approved policies and impressed with their responsibilities.

b) that affidavits on the form for the claimant and the approver be modified to state that the claim is in accordance with approved procedures, except as noted on a separate attachment.

c) that any exceptions to procedure be requested in an attachment by employees stating their reasons for asking for such an exception and the advantages or other consequences to the Corporation.

d) that any exceptions to procedures of more than $1,000 be referred to the Executive Vice President (or the President or Chairman in his absence) for final approval. A copy of the Vice President's recommendation for approval should be sent to the Inspector General for information simultaneously.

e) that, after questioning by the Accounting Office, items held in abeyance for more than $100, be reviewed and reprocessed through the normal approval procedure rather than being released after verbal advice.

CORPORATION'S RESPONSES

a) Responsibility for adherence to procedures rests with the employee and the supervisor. Revised procedures have been issued to emphasize this further.

b) Individuals authorized to approve travel reimbursement claims also have the authority to approve exceptions to the procedures. Therefore, this does not constitute a control problem.

c) The exception procedure recommended is sound. The existing travel policy states that expenses added solely for personal reasons will not be reimbursed.

d) Exceptions to the policy in excess of $1,000 will be referred to the Executive Vice President for final approval. A copy of the concurrence will also be sent to the Inspector General.

e) Any item held in abeyance in the Accounting Office is processed only after sufficient and proper documentation is received. There is no dollar limit to this procedure.

INSPECTOR GENERAL COMMENTS ON CORPORATION'S RESPONSES

The facts as stated in the observation are not acknowledged or any major problems recognized. The specific comments on responses follow:

a) The responsibility for adherence to procedures has not been completely fixed by the new procedure which has been issued.

b) The response seems to indicate that exceptions are to be routinely expected and approved with present submission and approval procedures being continued.

c) The recommendation has been accepted. No particular action or timeframe has been indicated by the response, however.

d) The recommendation has been partially accepted but no action has been taken or timeframe has been indicated.

e) The response does not recognize the problem. Secretaries and administrative assistants should not be allowed to approve questioned charges of this magnitude.

4. RELOCATION POLICY NEEDS CERTAIN REFINEMENTS

Interviews with employees indicated general satisfaction with relocation policies. However, relocation entitlements have varied widely with individuals and departments. There does seem to be greater consistency in recent months and a formal policy has now been approved and made effective 7 October 1982.

Each employee's individual entitlement is considered as a negotiable item somewhat similar to salary. These variations are probably not desirable for good employee relations as those with lesser entitlements could view themselves as second-class citizens in the eyes of their employer.

Frequently the househunting allowances are not used to the extent authorized, but in some instances the temporary living allowances are exceeded and rejected. Logic would seem to indicate that the number of househunting and temporary living allowance days be combined.

There have been frequent variations and misunderstandings on the incidental expense allowances which now stand at $1,000 plus 2 percent of salary not to exceed $1,500, but fully documented.

The revised policy which was approved and made effective 7 October 1982, did not contain the previously stated specific requirement of closing statements to document house selling and purchasing costs.

The new policy contained a provision that relocated employees would sign an agreement to reimburse the Corporation if they should terminate voluntarily within one year. However, only one individual agreement had been noted with this provision at the end of October 1982.

RECOMMENDATIONS OF THE INSPECTOR GENERAL

The Inspector General recommends:

a) that the specific requirement of closing statements be reinstated in the policy. In addition, cancelled check photos should be required in order to document these major claims more completely.

b) that the incidental expense be made an allowance and described as including all of the incidental costs not specifically mentioned. Almost all of the current areas of misunderstanding and employee disagreement would then be included, such as: extra trips home, spouse and children expenses, excess days of temporary living, lodging and meal costs above allowance, tips to movers, babysitters, pet boarding, rug and drapery refitting or dyeing, auto taxes, forfeited license payments or tuition fees, etc. Documentation could then be dropped as a requirement and the enforcement of the policy made more consistent.

c) that the recommendations indicated by a recent GAO report for Federal employees be considered:

   1) Maximum house selling costs of the lesser of 10 percent of the selling price or $15,000. (SFC has no maximum.)

   2) Maximum purchase expenses of the lesser of 5 percent of the purchase price or $5,000. (SFC has no maximum.)

   3) Miscellaneous allowance of $1,000 "for which no documentation is necessary." (SFC has $1,500 maximum but documentation is required.)

CORPORATION'S RESPONSES

a) The present policy did not remove the requirement of submitting closing statements as documentation on house selling or purchasing costs, but rather broadened the direct reference; the policy calls for "acceptable evidence" of documentation. Both the Personnel and Accounting departments require closing statements for processing these costs as a part of the acceptable evidence.

b) An undocumented allowance of $1,500 for incidental expenses would not be recommended. However, items of $25 or less not to exceed a total of $200 need not have receipts.

c) The current relocation policy has been developed in consultation with outside experts, and has been reviewed and approved by the Compensation Committee and the Board of Directors.

INSPECTOR GENERAL COMMENTS ON CORPORATION'S RESPONSES

a) The language of the relocation policies effective before October contained specific statements that reimbursement for expenses of both house sales and house purchases would be made, "upon submission of copies of the closing documents".

The current policy shows deletion of these clauses. There is a general provision, III D, which states, "an employee must document each expenditure with an itemized receipt, or equally acceptable evidence, as specified in the Corporation's travel policy".

The language of the former policy is less likely to be misunderstood or misconstrued and serves to remind new employees of the normal requirement for a reimbursement of considerable magnitude. A requirement for cancelled check photos would further improve the documentation and expenditure proof of these major claims. The recent policy should be revised to include the original specific language.

b) If all expenses are to be documented, the policy description should be enlarged and made more specific to include all or most of the items mentioned above in the recommendation.

c) Establishment of maximums at some level would seem to be desirable in individual agreements if not included in overall policy.

5. A MORE SPECIFIC EXPENSE REIMBURSEMENT POLICY FOR DIRECTORS WOULD BE DESIRABLE

The only guidance issued by the Corporation on the Board of Directors' expenses consisted of a short note which was prepared for the briefing book given to the Directors in October 1981. This statement discussed payment of salaries, payment for attendance at Board meetings, plus a statement that actual expenses would be reimbursed for Corporation work performed by Directors.

The vagueness of this instruction has led to a few questionable charges. The expenses submitted by Directors have varied considerably. Some obviously do not submit many of the expenses incurred; some charges lack receipts. Usually travel is by first class and probably should be.

RECOMMENDATIONS OF THE INSPECTOR GENERAL

The Inspector General recommends that the members of the Board of Directors be informed that, for reasons of economy and propriety, they should follow the guidelines spelled out in the Corporation's travel regulations as far as possible. Directors should be advised to submit expenses incurred. A more specific policy would be desirable.

CORPORATION'S RESPONSES

The Chairman issued a memorandum on 11 May 1982, authorizing each Board member to approve and authorize his own expenses, subject to existing policy.

Travel expenses of Board members are reimbursed as actual costs are incurred, which is the principle underlying the Corporation's travel policy for all employees. Individual reimbursement claims of the part-time Board members can vary in terms of costs due to their unique requirements and constraints placed on trip scheduling, tight itinerary, and short-term availability of accommodations while on Corporation business.

More advanced information concerning meetings is now being provided Board members to enable them to plan further ahead and reduce expenses. Sensitivity of expenditures related to travel expenses has now been discussed with each Board member by the Vice President-Administration.

INSPECTOR GENERAL COMMENTS ON CORPORATION'S RESPONSES

The memorandum of 11 May 1982 is unclear as to whether Directors can authorize any exceptions to the policy in approving their own expenses without further approval.

The Corporation's policy with respect to Director's expenses is still disjointed and lacks specific guidelines. The Inspector General recommends that either provisions for Directors be formally incorporated into the Corporation's existing policy document covering travel authorization and cost reimbursement practices for officers, employees, and consultants; or a separate policy document, containing specific guidelines, be prepared for Directors. In addition, the Inspector General strongly recommends that the resulting policy document, either new or amended, be approved by formal resolution of the Board of Directors.

6. NINE OF TEN EXCEPTIONS REPORTED HAVE NOW BEEN SATISFACTORILY RESOLVED

a) A board member who travels by private aircraft will further document his claims (limited to normal airfare) by a statement showing current commercial fares.

b) Accounting has agreed to require a listing of hotels contacted with "no available rooms" whenever hotel bills charged on claims are abnormally high for that reason.

c) A Vice President's advance for $500 in August was disposed of by his filing an expense claim in January and submitting a check for the balance in March.

d) House payments applicable to principal will be excluded from any future reimbursements for duplicate house carrying costs by relocated employees. An extract of a closing statement was obtained to further support a relocation expense claim.

e) An employee reimbursed the Corporation $170 for a ticket rerouting which was determined to be a personal expense.

f & g) Two different employees with inadequately documented travel expenses and routings provided satisfactory comparative cost analyses for the files.

h) An employee was instructed to follow travel reimbursement claim procedures regarding use of taxicabs and obtaining receipts for same. Unless the Comptroller's instructions are followed, future claims will not be processed. The employee was also advised to use the most economical form of transportation available in accordance with corporate policy.

i) Filing and Journal Entry improvement suggestions have been accomplished.

7. A TENTH EXCEPTION INVOLVING RELOCATION REIMBURSEMENTS TO AN OFFICER/DIRECTOR HAS NOT BEEN RESOLVED

A. An Officer/Director has been reimbursed $19,500 for the real estate commission on the house he purchased in Alexandria, Virginia on 20 August 1981. The closing statement indicates the commission was being paid by the purchaser. However, such commissions are normally paid by the seller; and, neither the old draft policy nor the new adopted policy provide for real estate commission reimbursement on the purchase of a house. The $19,500 appears to be additional consideration toward the purchase cost of the house. The Officer/Director did not sell, or pay any selling commission on, his former residence. Therefore, no commission seems to be reimbursable under the relocation policy. Nothwithstanding a memorandum from the Chairman of the Board to the Personnel Office stating "Reimbursement for relocation expenses of [the Officer/Director] should be made in accordance with the full range of benefits provided by the Corporation's policy", there is inadequate justification or documentation in the file for such a payment outside of corporate policy.

B. A mortgage interest rate differential claim of $1,590 per year for three years is open to question because the same Officer/Director did not sell his former residence or forego the benefits of the lower mortgage rate thereon. There is no evidence in the files that mortgage rate differential payments apply to any situation other than the sale and purchase of a home connected with a relocation.

Both of the above questions (A & B) remain unresolved and adequate justification supporting the propriety of the reimbursements is still lacking.

C. Expenses incurred of more than $3,000 prior to the Officer/Director's hire date need more elaboration as to the specific services he was performing for the Corporation. Of these expenses, receipts were lacking for 28 April and 16 May 1981 airfares of $264 and $528, respectively.

The Corporation should assemble the pertinent facts and document the official files to resolve this matter.

CORPORATION'S RESPONSES

The Corporation's response was submitted in the form of opinions prepared by the Assistant General Counsel in a memorandum for the Chairman. (See Attachment B.)

INSPECTOR GENERAL COMMENTS ON CORPORATION'S RESPONSES

The Inspector General must consider the reply finally received by the Audit committee on 13 April 1983 as the final response for inclusion in this report. The Corporation had been notified by the Chairman of the Audit Committee on 25 February 1983 to submit its final response to him by 18 March 1983. The Corporation cannot be allowed to delay the auditing process. Board of Director's action is needed as the following deficiencies still exist:

A. and B. Adequate justification supporting the authority for these two reimbursements under corporate policy is still lacking.

C. Additional information regarding the specific services performed has been gathered by the Corporation and one of the airfare receipts found, but further efforts by the Corporation are necessary to complete the documentation.

United States
Synthetic Fuels Corporation

April 13, 1983

MEMORANDUM FOR THE CHAIRMAN

FROM: Andrew P. Tashman/APT

SUBJECT: Inspector General's Exceptions - 1982 Internal Audit

At your request I am conducting a review of three matters relating to reimbursement of an officer and director of the Corporation that were raised as exceptions in the fiscal year 1982 internal audit of travel and relocation expenses and employee advance accounts conducted by the Office of the Inspector General and presented in a February 1983 Addendum. I set forth below the status of the review and the tentative conclusions reached with regard to each matter.

(5.a.) A director and officer has been reimbursed $19,500 for the real estate commission on the house he purchased in Alexandria, VA on 20 August 1981. The closing statement indicates the commission was being paid by the purchaser. However, such commissions are normally paid by the seller; and, neither the old draft policy nor the new adopted policy provide for real estate commission reimbursement on the purchase of a house. The $19,500 on the surface appears to be additional consideration toward the purchase cost of the house. The employee did not sell or pay any selling commission on his former residence. Therefore, no commission seems to be reimbursable under the relocation policy. Notwithstanding a memorandum from the Chairman of the Board to Personnel stating "Reimbursement for relocation expenses of [the director and officer referred to in 5.a.] should be made in accordance with the full-range of benefits provided by the Corporation's policy" there is inadequate justification or documentation in the file for such a payment outside of corporate policy.

> [The matter remains] unresolved and adequate justification supporting the propriety of the reimbursements is still lacking.

I have reviewed the Corporation's file on the payment, interviewed the director/officer and spoken telephonically to the seller, Maurice N. DeGroff, the settlement agent, attorney George E. Bitner, and to Pat Buck, sales associate for Holley, Hargett & Spain, the real estate brokerage firm that received one half of the commission and on whose form the sales contract was written. I have also had a brief telephone conversation with the second broker, Gary Golubin of the firm of Golubin and Warwick. Responses in the telephone interviews have not always been precise, suggesting that more detailed interviews may be required.

Subject to further verification of the facts, examination of real estate commission practice and discussions with accountants and compensation specialists regarding relocation compensation policies and practices, we set forth our understanding of the facts and tentative conclusions.

The buyer, after several months of unsuccessful personal efforts conducted evenings and weekends to locate a residence, contacted a number of brokers specializing in residential homes in areas in and surrounding Washington, including Pat Buck of Holley, Hargett & Spain. No written contract was entered into between the buyer and Holley, Hargett & Spain. The buyer told the sales associate that he expected her to work for him, not a seller. There was no discussion of a commission or commission rate at the time of the engagement, although the buyer intended to pay an appropriate commission. The sales agent has said that she believes that she was "working for" the buyers to find a house, and she often does not reach an explicit agreement regarding a commission until a contract is signed for a home.

The house for which reimbursement of the commission was paid by the Corporation was subject to a July 29, 1981, listing agreement entered into by the seller with the real estate agency of Golubin & Warwick. The agreement provided for a three-month exclusive listing, a listed selling price of $349,000 or such other price agreed upon, and a commission of six percent of the selling price if the property were sold during the listing period. The agreement authorized Golubin & Warwick to utilize a multiple listing service, and it was through that service that the Holley, Hargett & Spain agent learned of the availability of the property.

The buyer and seller entered into a sales contract dated August 2, 1981. The sales price was originally listed on the preprinted contract form as $305,500. This is stricken from the form and in its place is the figure $325,000. The seller states that he insisted that the contract include the higher amount. A preprinted provision for "agents fee" provides for payment by the seller. This was manually revised to provide for payment by the buyer "included in the down payment."

The August 20, 1981, closing statement recites a "contract sales price" of $325,000, but elsewhere the total is broken down as "$305,500 base purchase price plus $19,500 paid by purchaser equals $325,000 total purchase price." A gross amount of $325,100 is listed as due the seller, and the $19,500 commission is listed as "paid from sellers funds at settlement." The commission of 6% is calculated at the $325,000 sales price. The buyer believes that the higher price was used in the closing statement at the direction of the settlement agent to reflect the appropriate transfer value. The settlement agent believes the statement reflects what the parties to the transaction had earlier agreed upon. The buyer has no recollection of the circumstances surrounding the modification of the sales contract to reflect the higher sales price.

The relocation allowance plan in effect at the time of the transaction provided, in the case of "sale closing costs", for reimbursement of "all reasonable selling expenses ... including mortgage pre-payment penalty, broker's commission, mortgage discount points, duplicate loan carrying costs, etc." (emphasis supplied). For "purchase closing costs" the policy provided for reimbursement of "all normal and reasonable buyer costs."

It is our tentative view that in the context of the facts of this transaction, the commission paid by the buyer cannot be treated as a normal and reasonable buyer cost. This is not to say that it may not be normal and reasonable under other circumstances for the buyer to incur such an expense. For example, it may be normal and reasonable for a buyer to retain his own broker in search of a house and agree to pay a fee independently of what the seller may be obliged to pay and ordinarily include in the sales price. In such a case, the seller owes no fee to the broker in the event of sale, and any payment by the buyer in no way bears on the consideration paid the seller for the house.

In this case, the seller was obliged to pay a fee to Golubin & Warwick in the event of sale of 6 percent of the sales price including commission. That fee, as we understand it, would be split by Golubin & Warwick with another broker if the sale were consummated with the assistance of another broker through the multiple listing service.

The papers are somewhat inconclusive as to whether the purchase price for the home was $305,500 or $325,000, and whether the buyer or seller paid the brokerage commission. But even if the buyer paid the commission, as recited in the contract of sale and settlement statement, it appears that the lesser price was agreed to only on condition that the buyer pay a commission the seller was contractually obliged to pay in connection with the transaction. This should be viewed as part of the overall consideration to the seller, so that the transaction involved a $325,000 purchase price, regardless of how denominated in the closing papers. Thus we view the commission not as a normal and reasonable buyer cost, but as part of the purchase price. We do not believe the negotiations surrounding payment of the commission have altered its essential character so that it would qualify as a normal and reasonable buyer cost rather than the purchase price.

Advised of the Office of General Counsel's tentative decision, the officer/director has voluntarily agreed to pay to the Corporation on June 1, 1983, or as soon thereafter as the Office of General Counsel reaches its final decision, a sum representing the reimbursement and interest thereon in the event the Office of General Counsel concludes that the reimbursement was not in accordance with the Corporation's relocation reimbursement policy. In agreeing to the payment the officer/director has restated his firm belief that the reimbursement was in accord with the Corporation's relocation reimbursement policy, and has reserved all his rights to ultimate repayment of the sum as well as all other amounts to which he may be entitled by law or Corporation policy.

> (5.b.) A mortgage interest rate differential claim of $1,590 per year for three years is open to question because the same employee referred to in 5.a. did not sell his former residence or forego the benefits of the lower mortgage rate thereon. There is no evidence in the files that mortgage rate differential payments apply to any situation other than the sale and purchase of a home connected with a relocation.
>
> [The matter remains] unresolved and adequate justification supporting the propriety of the reimbursements is still lacking.

The Corporation's policy regarding "mortgage interest differentials" stated:

> "provide payment for interest rate differences between old and new rate times old mortgage dollar balance for a 3-year period. Payment to be made on an annual basis."

There is no explicit requirement that the employee sell his old residence as well as purchase a new residence. Such a requirement might be implied from the text if the purpose of the provision were solely to reimburse the employee for the loss of a favorable mortgage as a consequence of the job-related change of principal residence. The sale of the original principal residence; however, would not establish that there was in fact economic loss. If the old mortgage were assignable, and mortgage rates had risen in the area of the original principal residence, the value of the mortgage would not be lost, but instead be reflected in the sales price received by the employee with the transfer of the mortgage as part of the sale.

On the other hand, the differential may also be viewed as provided to enable the new employee to purchase a new residence on financing terms comparable to those he had obtained when he financed his old principal residence. The purpose would be to assist in providing a standard of housing comparable to that enjoyed in his prior place of residence. If this be the purpose, whether he sold his old home or retained it as an investment would not govern eligibility for the differential.

It is our tentative view that the differential may properly be paid under the above stated policy, and the more recent statement of policy effective October 10, 1982, even where the original principal residence has not been sold. We plan to discuss this matter with compensation specialists to assure we fully appreciate all factors involved in this and comparable reimbursement programs.

> (5.c.) Expenses incurred of more than $3,000 prior to the employee's (same employee referred to in 5.a. and 5.b.) hire date need more elaboration as to the specific services the employee was performing for the Corporation. Of these expenses receipts were lacking for 28 April and 16 May 1981 airfares of $264 and $528, respectively.
>
> The Corporation should assemble the pertinent facts and document the official files to resolve this matter.

A review of the audit file suggests that the expenses incurred in April and May 1981 were first claimed as relocation costs, and as such costs, disallowed. This decision appears to have been reversed in March of 1982 on the basis that the director/employee was conducting business on behalf of the Corporation.

The passage of time has made it impossible for the director/employee to reconstruct completely all the business conducted during the period. The officer/director has attempted to reconstruct his activities based on incomplete records. While the reconstruction does not cover all days for which reimbursement is sought, it does reflect substantial contact with Corporation employees and candidates for employment, and members of the executive and legislative branches.

The officer/director has located his receipt for the April 23-28, 1981, round trip between Atlanta and Washington, but not for May 15-16, 1981.

Further efforts to elaborate on the documentation in the files are continuing.

United States
Synthetic Fuels Corporation

June 28, 1983

MEMORANDUM FOR THE CHAIRMAN

FROM: Andrew P. Tashman APT

SUBJECT: Inspector General's Exceptions - 1982 Audit

At your request I have conducted a review of three matters relating to reimbursement of an officer and director of the Corporation that were raised as exceptions in the fiscal year 1982 internal audit of travel and relocation expenses and employee advance accounts conducted by the Office of the Inspector General and presented in a February 1983 Addendum. I set forth below the results of the review and the conclusions reached with regard to each matter.

> (5.a.) A director and officer has been reimbursed $19,500 for the real estate commission on the house he purchased in Alexandria, VA on 20 August 1981. The closing statement indicates the commission was being paid by the purchaser. However, such commissions are normally paid by the seller; and, neither the old draft policy nor the new adopted policy provide for real estate commission reimbursement on the purchase of a house. The $19,500 on the surface appears to be additional consideration toward the purchase cost of the house. The employee did not sell or pay any selling commission on his former residence. Therefore, no commission seems to be reimbursable under the relocation policy. Notwithstanding a memorandum from the Chairman of the Board to Personnel stating "Reimbursement for relocation expenses of [the director and officer referred to in 5.a.] should be made in accordance with the full-range of benefits provided by the Corporation's policy" there is inadequate justification or documentation in the file for such a payment outside of corporate policy.
>
> [The matter remains] unresolved and adequate justification supporting the propriety of the reimbursements is still lacking.

I have reviewed the Corporation's file on the payment, interviewed the director/officer, spoken telephonically to the seller, Maurice N. DeGroff, and the settlement agent, attorney George E. Bitner, and have interviewed Pat Buck, sales associate, and William Malone, office manager, for Holley, Hargett & Spain, the real estate brokerage firm that received one half of the commission and on whose form the sales contract was written. I have also had a brief telephone conversation with the second broker, Gary Golubin of the firm of Golubin and Warwick. My review has also included a survey of area real estate commission practices and an interview with consultants from Hay Associates, managerial consultants retained by the Corporation.

The facts appear to be as follows:

The buyer, after several months of unsuccessful personal efforts conducted evenings and weekends to locate a residence, contacted a number of brokers specializing in residential homes in areas in and surrounding Washington, including Pat Buck of Holley, Hargett & Spain. The buyer told the sales associate that he expected her to work for him, not a seller. The buyer recalls no discussion of a commission or commission rate at the time of the engagement, although it was his intention to pay an appropriate commission.

The sales agent has said that she believes that she was "working for" the buyer to find a house, and that she often does not reach an explicit agreement regarding a commission until a contract is signed for a home. While she does not recall the specifics of any discussion relating to commissions before the purchase, she was told by the buyer that she should not limit her efforts to homes offered with commissions by the seller, and that she would be taken care of in all events. No written contract was entered into between the buyer and Ms. Buck, or Holley, Hargett & Spain.

The house for which reimbursement of the commission was paid by the Corporation was subject to a July 29, 1981, listing agreement entered into by the seller with the real estate agency of Golubin & Warwick. The agreement provided for a three-month exclusive listing, a listed selling price of $349,000 or such other price agreed upon, and a commission of six percent of the selling price if the property were sold during the listing period. The agreement authorized Golubin & Warwick to make a blanket unilateral offer of "subagency" to real estate brokers and participants in a mulitple listing service, and it was through such a service that the Holley, Hargett & Spain agent learned of the availability of the property, and participated in the transaction. The Suggested Procedures Manual of the Northern Virginia Board of Realtors, Inc., states that all real estate brokers participating in a mulitple listing service do so as agents or subagents for the seller.

The buyer and seller entered into a sales contract dated August 2, 1981. The sales price was originally entered on the preprinted contract form as $305,500. This is stricken from the form and in its place is the figure $325,000. The seller states that he insisted that the contract include the higher amount. A preprinted provision for "agents fee" provides for payment by the seller. This was manually revised to provide for payment by the buyer "included in the down payment."

The August 20, 1981, closing statement recites a "contract sales price" of $325,000, but elsewhere the total is broken down as "$305,500.00 BASE

PURCHASE PRICE PLUS $19,500.00 PAID BY PURCHASER EQUALS $325,000.00 TOTAL PURCHASE PRICE." A gross amount of $325,100 is listed as due to seller, and the $19,500 commission is listed as "PAID FROM SELLERS FUNDS AT SETTLEMENT." The commission of 6% is calculated at the $325,000 sales price. The buyer believes that the higher price was used in the closing statement at the direction of the settlement agent to reflect the appropriate transfer value. The settlement agent believes the statement reflects what the parties to the transaction had earlier agreed upon.

The buyer has no recollection of the circumstances surrounding the modification of the sales contract to reflect the higher sales price. Ms. Buck recalls that she filled in the initial terms and modified the printed text of the sales contract upon the instructions of the buyer. She met with the seller at the offices of Golubin & Warwick. The seller insisted that the sales price be changed to $325,000. The contract was thereupon modified and presented to the buyers for initialling. The contract was further changed at that time to provide that the commission would be included in the down payment, but Ms. Buck cannot recall at whose instance.

The relocation allowance policy in effect at the time of the transaction provided, in the case of "sale closing costs", for reimbursement of penalty, broker's commission, mortgage discount points, duplicate loan carrying costs, etc." (emphasis supplied). For "purchase closing costs" the policy provided for reimbursement of "all normal and reasonable buyer costs."

It is our view that in the context of the facts of this transaction, the commission paid by the buyer cannot be treated as a normal and reasonable buyer cost. This is not to say that it may not be normal and reasonable under other circumstances for the buyer to incur such an expense. For example, it may under some circumstances be normal and reasonable for a buyer to retain his own broker in search of a house and agree to pay a fee independently of what the seller may be obliged to pay. In such a case, the seller owes no fee to the broker in the event of sale, and any payment by the buyer in no way bears on the consideration paid the seller for the house.

In this case, the seller was obliged to pay a fee to Golubin & Warwick in the event of sale of 6 percent of the sales price including commission. That fee would be split by Golubin & Warwick with another broker if the sale were consummated with the assistance of that other broker through a multiple listing service.

The papers are somewhat inconclusive as to whether the purchase price for the home was $305,500 or $325,000, and whether the buyer or seller paid the brokerage commission. But even if the buyer paid the commission, as recited in the contract of sale and settlement statement, it appears that the lesser price was agreed upon only on condition that the buyer pay a commission the seller was contractually obliged to pay in connection with the transaction. This should be viewed as part of the overall consideration to the seller, so that the transaction involved a $325,000 purchase price, regardless of how denominated in the closing papers. Thus we view the commission not as a normal and reasonable buyer cost, but as part of the purchase price. We do not believe the negotiations surrounding payment of the commission have altered its essential character so that it would qualify as a normal and reasonable buyer cost rather than the purchase price.

We have additionally sought to determine whether, notwithstanding this analysis, it is common practice for buyers to negotiate their contracts of purchase so that they pay directly to brokers commissions for which the seller is already contractually obligated, or whether there exists a consistent or substantial practice of reimbursement of such payments by employers.

William Malone, office manager for Holley, Hargett & Spain, could recall only three occasions in the last five years when a buyer had paid a commission. This represented less than 1% of all the office's transactions, although perhaps as much as 10% of transactions involving homes sold at prices in excess of $250,000. In no case was the seller already contractually obliged to pay a commission to the broker.

The results of a telephone survey of Alexandria or other northern Virginia offices of eight major residential real estate agencies suggests that commissions are paid by buyers quite infrequently, with answers ranging from less than 5% in one case, to 1%, to "never." Payment of a commission by a buyer when the seller is committed to pay was in all cases less than 1%, with half those polled responding with less than 1/10th of 1% or "never."

Hay Associates is not aware of any policies of private corporations to reimburse commissions paid by the buyer, either as a component of the purchase price, or where broken out and paid by the buyer. They do not rule out the possibility that such costs might occasionally be reimbursed on a clerical level pursuant to a policy which generally reimburses "commissions."

Advised of the Office of General Counsel's earlier tentative decision, the officer/director has voluntarily agreed to pay to the Corporation as soon as the Office of General Counsel reaches its final decision, a sum representing the reimbursement and interest thereon in the event the Office of General Counsel concluded that the reimbursement was not in accordance with the Corporation's relocation reimbursement policy. In agreeing to the payment the officer/director has restated his firm belief that the reimbursement was in accord with the Corporation's relocation reimbursement policy, and has reserved all his rights to ultimate repayment of the sum as well as all other amounts to which he may be entitled by law or Corporation policy.

(5.b.) A mortgage interest rate differential claim of $1,590 per year for three years is open to question because the same employee referred to in 5.a did not sell his former residence or forego the benefits of the lower mortgage rate thereon. There is no evidence in the files that mortgage rate differential payments

> apply to any situation other than the sale and purchase of a home connected with a relocation.
>
> [The matter remains] unresolved and adequate justification supporting the propriety of the reimbursements is still lacking.

The Corporation's policy regarding "mortgage interest differentials" stated:

> "provide payment for interest rate differences between old and new rate times old mortgage dollar balance for a 3-year period. Payment to be made on an annual basis."

There is no explicit requirement that the employee sell his old residence as well as purchase a new residence. Such a requirement might be implied from the text if the purpose of the provision were solely to reimburse the employee for the loss of a favorable mortgage as a consequence of the job-related change of principal residence. The sale of the original principal residence, however, would not estabalish that there was in fact economic loss. If the old mortgage were assignable, and mortgage rates had risen in the area of the original principal residence, the value of the mortgage would not be lost, but instead be reflected in the sales price received by the employee with the transfer of the mortgage as part of the sale.

On the other hand, the differential may also be viewed as provided to enable the new employee to purchase a new residence on financing terms comparable to those he had obtained when he financed his old principal residence. The purpose would be to assist in providing a standard of housing comparable to that enjoyed in his prior place of residence. If this be the purpose, whether he sold his old home or retained it as an investment would not govern eligibility for the differential.

Consultation with Hay Associates on this question has not developed any evidence of a uniform policy in industry requiring sale of an earlier residence as a condition to payment of the diffential for what is in fact the new principal residence.

It is our view that the differential may properly be paid under the above stated policy, and the more recent statement of policy effective October 10, 1982, even where the original principal residence has not been sold.

(5.c.) Expenses incurred of more than $3,000 prior to the employee's (same employee referred to in 5.a. and 5.b.) hire date need more elaboration as to the specific services the employee was performing for the Corporation. Of these expenses receipts were lacking for 28 April and 16 May 1981 airfares of $264 and $528, respectively.

> The Corporation should assemble the pertinent facts and document the official files to resolve this matter.

A review of the audit file suggests that the expenses incurred in April and May 1981 were first claimed as relocation costs, and as such costs, disallowed. This decision appears to have been reversed in March of 1982 on the basis that the director/employee was conducting business on behalf of the Corporation.

The passage of time has made it impossible for the director/employee to reconstruct completely all the business conducted during the period. The officer/director has attempted to reconstruct his activities based on incomplete records. This reconstruction is memorialized in a memorandum to the files dated June 22, 1983, a copy of which is attached. While the reconstruction does not cover all days for which reimbursement is sought, it does reflect substantial contacts with Corporation employees and candidates for employment, and members of the executive and legislative branches throughout the periods for which reimbursement was made.

The officer/director has located his receipt for the April 23-28, 1981, round trip between Atlanta and Washington, but not for May 15-16, 1981. He does, however, reaffirm that the trip was taken, and paid for as reported in his claim.

We believe that no further action need be taken.

United States
Synthetic Fuels Corporation

MEMORANDUM FOR THE FILES

FROM: VICTOR A. SCHROEDER

SUBJECT: Elaboration of Services Performed for Corporation April 23 through May 16, 1981; Supplemental Documentation of Air Fares

DATE: June 22, 1983

I. SERVICES PERFORMED

During the periods April 23, 1981, to April 28, 1981, and May 5, 1981, to May 16, 1981, I traveled to and from, and was present in Washington, D.C., for the primary purpose of conducting business on behalf of the Corporation. This business consisted primarily of interviews with present and prospective officers and employees of the Corporation and potential outside auditors, conferences with Department of Energy officials regarding DOE projects and policies, and meetings with Senators, Senate and Congressional staff regarding the Corporation's affairs.

I cannot, at this late date, fully reconstruct with precision all of these activities. I have reviewed my appointment notes for the period and have identified entries which reflect a portion of these activities. As these notes were most often made in advance of conversations and meetings, I cannot confirm that they all took place as scheduled. Nor do they reflect all activity performed on behalf of the Corporation during the periods covered. It is my best recollection, however, that most of my time during this period was devoted to Corporation business.

My appointment notes reflect:

April 23, 1981

Telephone conversation with Ed Noble, then in Oklahoma.

April 25, 1981

A meeting with Robert Harris, a USSFC Vice President, to examine office space at 122 C Street, a potential site for the Corporation's offices.

April 27, 1981

A meeting with Jack McAtee, the Acting Chairman of the Corporation, and Larry Garrett, then in the Office of the White House Counsel.

A meeting with Wayne Berman, then Assistant Director of the Center for Strategic Studies, to discuss possible Corporation employee hires.

A meeting at the Rayburn House Office Building.

A meeting with Walter Pettis, an advisor to Energy Secretary Edwards.

May 5, 1981

A meeting with Wayne Roberts of the White House Personnel Office regarding prospective employees.

A meeting with Ed Noble.

A meeting with Senator Metzenbaum.

May 6, 1981

A meeting with Wayne Roberts.

A meeting with Admiral Mathews and Paul Leach regarding energy matters.

A meeting with Owen Malone.

A meeting with Joe Seltzer, then Acting Inspector General.

A meeting with Jack McAtee.

May 7, 1981

A meeting with Monty Pasco, Director of Energy, State of Colorado, and Jim Monynihan, of the Governor's Office, Colorado.

A meeting with John Sawhill.

A meeting with David Stockman.

May 8, 1981

A meeting with Walter Pettis.

A meeting with Francis Allhof, a DOE officer who worked on the Great Plains, Colony and Union projects.

A meeting with Herb Ressing, then a Director of the Synthetic Fuels Council.

May 11, 1981

Two meetings with Francis Allhof.

May 12, 1981

A meeting with Wayne Berman.

A meeting with Steve Bienstock, then an aide to Congressman Brown for energy matters, and on the USSFC transition team.

A meeting with Greg Evans of the USSFC transition team.

A meeting with Dan Denning of Gulf Oil.

A meeting with Scott Angier of Senator Towers' office regarding possible employment.

May 13, 1981

A meeting at the Dirksen Senate Office Building with Mike Hathaway of Senator McClure's staff and Charles Trabandt of the staff of the Senate Energy Committee.

A meeting with Wayne Roberts.

May 14, 1981

A meeting with Greg Evans.

May 15, 1981

A meeting with Mike Masson, then a White House consultant, and Bill Tucker of the USSFC transition team.

A meeting with Herb Ressing.

A conversation with Bob Gambino.

A meeting with Senator Dominici.

A conversation with Rick Shelby of the White House.

A meeting with representatives of Coopers & Lybrand, accountants, regarding potential engagement as independent auditors.

A conversation with Herb Ressing.

A meeting with Wayne Roberts.

A meeting with Francis Allhof and Ray Romatowski of DOE.

A conversation with Greg Evans.

A conversation with Owen Malone regarding conflicts.

A telephone conversation with Frank Lilly.

May 16, 1981

A meeting with representatives of Touche, Ross & Co., accountants, regarding potential engagement as independent auditors.

Meeting with Mike Masson.

II. AIR FARE DOCUMENTATION

I have recently searched my records in an effort to locate tickets or other receipts for air fares reimbursed by the Corporation. I have located my tickets for flights taken from Atlanta to Washington and return on April 23 and April 28, 1981. These are attached. I have been unable to locate any records of my air fare for my May 16 and May 17, 1981, flights from Washington to Atlanta and return, but reaffirm that the flights were taken, with fares paid by me as reported in my claims.

2/1/82

United States
Synthetic Fuels Corporation

February 1, 1982

MEMORANDUM FOR EDWARD E. NOBLE (#1)
VICTOR A. SCHROEDER (#2)
EDWARD F. COX (#3)

FROM: Robert A. G. Monks (#4)

I have prepared the attached to focus my own thoughts. No other copies have been made, due to the candour of my observations and the possibility they might be misunderstood.

If you think it would be helpful, please discuss the enclosed with whomsoever you might think appropriate.

Attachment

2/1/82

CONFIDENTIAL --
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USE OF RAGM

SFC -- CONCERNS AND STRATEGY

In trying to organize myself for the next meetings of the Board of Directors of Synthetic Fuels Corporation, I have found it helpful to set forth specifically my present concerns; to begin to outline a high leverage strategy for SFC's resources; and finally to try to make sense out of where we are and where we want to be.

I. CONCERNS

A. I am worried about the nakedness of SFC as a joint venturer, creditor or loan guarantor. As a practical matter, a government corporation cannot effectively assert its rights. It would be stupid of us not to be fully aware of this before entering into projects.

B. I find that words insufficiently warn me of the utter unreliability of macroeconomic projections, cost analyses and computer studies. Even though I keep reminding myself of the deficiency of the numbers, there is a tendency to assume that they have some value and that the only question is the range of error. I simply remember the price of oil since 1970 and the cost of the Alaska pipeline and remind myself to rely ruthlessly on my own common sense.

C. We must make every effort to minimize government involvement -- (a) as to risk through choice of an appropriate medium of financial involvement; (b) as to the amount of money through specifically targeting the technology with which we want to be involved; and as to technology. We should couch eligibility for financial assistance not according to our view of the technologies but according to the production results actually produced.

D. We need to develop an understandable system for evaluating potential projects that enables the Board to make decisions without becoming prisoners of the staff. We must be attentive to devising a system that produces information in a form susceptible of being understood by the Board as a basis for its decision. We have to make clear what factors the Board considers to be of determinative importance?

E. We have to develop a system for making financial assistance decisions that is fair, and that is perceived as being fair. We need to develop standards that are simple, that are applied across the board, and that give potential applicants a real opportunity to compete. Our objective is to allocate SFC financial assistance according to real competition in the marketplace.

F. It is neither legal (under the statute) nor right for us to prejudge what the private sector will or will not do. We must use the solicitation process precisely in the marketplace to elicit responses that will demonstrate the necessary minimum levels of risk and exposure for SFC.

G. The Directors really ought to be personally involved in the continuing process of keeping the oversight committees and congressional staff informed of our progress, problems, and our resolution of difficulties.

H. We really should not reduce our obligational authority by making any awards until we have some overall strategy with respect to the appropriate allocation of all our resources.

II. OUTLINE STRATEGY

The Board must develop a strategic system with which to analyze existing proposals; structure new solicitations; and to establish priorities for allocating financial assistance. The objective is to create a focused strategy that permits maximum leverages for SFC resources.

This section will attempt first to develop from the statute itself the essential components of Congress' requirements and second to suggest how these requirements can be specifically crafted into solicitations.

A. Important Factors

1. Whenever the Board deems it practical, awards shall be made on the basis of competitive bids (Section 131(a)). This means that the Board should attempt to contrive a method of solicitation that will permit comparison of projects on a quantitative basis so that an exact competition is possible. See also Section 131(b)(4).

2. Preference is to be given to the proposal which represents the least commitment of financial resources by the Corporation. Presumably, this preference includes both the number of dollars committed and the level of risk involved. Thus, a low risk project involves lesser commitment than one with high risk. Section 131(b)(2)(A).

3. Preference also is to be given on the basis of the lowest unit cost of production. Section 131(b)(2)(A).

4. As to form of financial arrangements -- price guarantees, purchase agreements and loan guarantees are preferred over loans, all of which are preferred to joint ventures. Section 131(b)(2)(B). Indeed, the Corporation cannot make loans or go into joint ventures, unless the Board first determines that neither purchase agreements, price nor loan guarantees will adequately support the construction and operation of the project or will restrict the available participants. Section 131(p). How the Board is to make this determination is not specified. (Maybe a specific solicitation is indispensable. Are loan guarantees less risky than loans? See, infra.)

5. The Corporation should take into account the diversity of technologies (Section 131(b)(3)(A)), but only to the extent such offers potential for achieving the production goal (Section 126(a)(2)(A)).

6. The potential cost per barrel. Section 131(b)(3)(B)(i).

7. The production potential, including potential for replication, the extent of the resource, its geographic distribution, and its end use. Section 131(b)(3)(B)(ii).

8. The potential of the technology for complying with applicable regulatory requirements. Section 131(b)(3)(B)(iii).

9. Not only should there be a competitive process of awards; but awards should also promote competition. Section 131(h).

B. Mode of Financing

The starting point of a "high leverage" strategy is the method of financial assistance that will have the greatest probable impact on volume of production and diversity of technology at the lowest risk. The Corporation is legally obligated to try to achieve the desired results through loan guarantees, price guarantees and purchase agreements. See II, A, 4, *supra*.

1. Loan guarantees have the same characteristics as loans with the exception of the obligation to advance cash immediately. Otherwise, the position of lender and guarantor are, for all intents and purposes, identical. Even though loan guarantees are mandated to be a more desirable mode of financing under the statute than direct loans, they do not, in fact, represent a lower level of risk.

It seems almost inconceivably that SFC would enter into either a loan or a loan guarantee except when the marketplace had demonstrated that the statutory goals could not be achieved through a more desirable mode of financing. A loan guarantee requires SFC to share the risk of completion of a project within budget. SFC Directors must realize that we could be the butt of the old joke that goes "If you owe a bank $1,000 and you can't pay, you are in trouble. If you owe a bank $1 billion and you can't pay, the bank is in trouble." Every sophisticated person dealing with us will appreciate our virtual inability to protect the classic lender's position. By which I mean SFC really cannot foreclose and sell off or finish the project itself. We don't have the experience; we don't have the personnel; we don't have the management. These are the classic elements for disaster in entering the foreclosure business. If you cannot foreclose, you shouldn't loan. SFC cannot simply walk away from the project and write off the losses because of the political exposure. Nor as a practical matter can SFC loan enough additional funds to spend our way out of disaster. The statute contains at least two restrictions on the amount of loans permissible to a particular project -- (a) 15% of capital ($3 billion); and (b) 200% of the initial loan commitment. For amounts in excess of that, SFC must go back to the Congress.

The level of risk involved in a loan transaction is very high, because of construction costs drastically exceeding estimates. All the literature that we have received plus recent experience with major projects involving state of the art technology suggest that there can be no real certainty respecting costs for projects of the size with which SFC will be involved. Therefore, SFC's level of exposure almost certainly will be unacceptable.

2. Purchase guarantees add nothing as a practical matter to price guarantees. There are limitations in the statute with respect to pricing under the purchase guarantee that are not repeated in the section relating

to price guarantees. (Section 135(a)) The purchase process is cumbersome. DOD has certain purchase rights, but apparently non when SFC uses price guarantees (Section 172(d)(2)).

3. SFC ought to be able to use a price guarantee in a way that leverages the possibility of eliciting the technological response we are seeking. We are not fundamentally concerned with how much profit one of our sponsored projects makes.[1] (There might be a level sometime in the future when this would become a concern.)[2]

If we divorce SFC from the risk of project completion, supra, and we couch price guarantees with incentives at a genuinely attractive level, we ought to be able to elicit response from the kind of sponsors we really want -- namely, those with the managerial and financial resources to undertake a project of this magnitude. By placing SFC cost at the state of delivery of an acceptable product, we have eliminated the risk of utter misuse of the taxpayer's money and have effectively focused the costs, however high, on the actual production of the desired material.

Price guarantees also have uniquely attractive characteristics under the statute.

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[1] Section 134 provides ..."In awarding financial assistance under this section, the Corporation shall establish such specified sales price at the level which will provide the minimum subsidy determined by the Board of Directors to be necessary to provide an adequate incentive, in light of projected prices of competing fuels and the requirements for economic and financial viability of the synthetic fuel project."

Note well that the SFC is specifically authorized in projects with price guarantees "to share in the profits...on a fair basis." Section 131(n).

[2] All price guarantees must contain a provision for review within 10 years "at which point the Corporation shall specifically determine the need for continued financial assistance." Section 131(s).

(a) While fees can be charged for other modes of financing, there is a limit of 1/2 of 1% for loan guarantees. Section 139(h) A 1% level can be used for price guarantees Section 139(a) and the proceeds are available to offset administrative expenses or as additional obligational authority.

(b) The obligational authority of SFC is reduced in the case of price guarantees "based upon the corporation's estimate of its maximum potential liability." Section 152(b)(1)(c) ((Emphasis added)). In the case of loans and loan guarantees, obligational authority is reduced by the face amount of the commitment. Clearly, the Directors can achieve flexibility and leverage with intelligently crafted price guarantees.

(c) SFC does not have to meet the extremely difficult test of proving that its financial assistance would not otherwise be available when it uses price guarantees.[3/] Section 131(r).

The disadvantages under the statute do not seem onerous.

(d) The Corporation may not acquire control of a synthetic fuel project in the event of a default. Section 137(b). This seems of little importance with a price guarantee.

(e) Probably the Corporation may not require that whenever inventions are made in the course of a project, title to the patent shall rest in SFC. Section 173(a). How important this is, I don't presently know.

At the risk of repetition, the advantages of using a "price guarantee" mode of financing are vastly lowered risk, no immediate cash outlay

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[3/] It must do so in the cases of loans and loan guarantees. If this provision is interpreted literally, SFC can only go into the loan and loan guarantee business on a basis that no competent other financial institution would do so. This must be a formula for disaster and yet another reason to stay away from loan guarantees.

(probability that none will ever be paid over), higher fees, sharing in the profits,[4] flexibility with respect to SFC's obligational authority, elimination of the need to expose the Corporation to risks no other competent institutions would accept.

By using price guarantees, SFC can go far towards a truly competitive basis for awarding financial assistance, because there will be only simple quantitive, comparable factors relevant.

SFC would be less concerned with the financial competency and the technological feasibility of projects. By requiring an earnest money deposit and a strictly enforced commencement date, SFC can adequately protect its obligational authority. If projects do not materialize on schedule, the commitment is void and the amount returned to the obligational authority.[5]

This would permit SFC to operate with a smaller organization than if all modes of financing were to be entertained. There will need to be competency on the anticipated future price levels of particular kinds of fuels.

C. Alternative -- Targeting the Desired Technology

If, and only if, price guarantee based solicitations do not result in a sufficient volume and diversity of projects to meet the statutory goals, SFC should undertake other kinds of financing only to the extent necessary to encourage specific technology.

Schematically, all synthetic fuels operations can be represented as having three parts -- extraction of the material, processing this material into either a gaseous or liquid form, and converting or refining this gaseous or liquid material into a form suitable for customer use.

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[4] In the case of price guarantees, the Corporation may require.... "That (it) share in profits...on a fair basis." Section 131(n).

[5] Awaiting opinion of SFC Counsel.

The general solicitation method of eliciting sponsors' interest has resulted in requests for SFC financial involvement in total projects. Thus, assistance based on the present solicitations would involve a substantial portion of SFC's resources being committed to mining. With very minor exceptions, there do not appear likely any extraordinary technological breakthroughs in mining. The country really does not benefit at all in having SFC's money go into mining. We already know how to mine and it's noteworthy that the DOE shale projects have subcontracted out the mining portion to independent companies. Nor does there seem any lack of present knowledge as to the refining and conversion of gas and liquid products into a form economically useful. The particular area in which uncertainty exists is processing. How does one take the coal in solid form and convert it into a gas or into a liquid.

It may be that the fundamental economics of synthetic fuels projects are so fragile that SFC will have to agree to become financially involved in the mining in order to be successful in inducing appropriate companies to undertake the whole project. If that is a fact, we had best know it as a fact and not simply guess at it. By this I mean we should use the procedure permitted by statute by which we selectively solicit response and only if we are unsuccessful in getting such response should we turn back to general solicitations.

D. King Coal

The Energy Security Act specifically limits SFC financing to the following resources: shale, tar sands, coal and hydrogen. By-passing hydrogen for the moment, it would appear as if neither shale nor tar sands should be high priority objectives for SFC at the present time.

We have inherited two large shale projects from DOE. These will suffice to demonstrate basic principles respecting above-ground retorting of shale. It is really not sensible at this time to attempt to induce the advent of more sophisticated technology until the practical aspects of the Union and Tosco projects are clear. Once either or both of them have demonstrated feasibility with a basic mining operation, simple common sense suggests that they, like the oil operators before them, will be induced to try secondary and tertiary recovery techniques. At this point mining techniques will have been stabilized; initial costs will have been amortized; and real expertise developed. This is a far better situation than exists at present.

In Alberta the two large tar sand projects permit a potential developer to access technology without any need for SFC financial assistance. Tar sand reserves in the United States are not so large as to suggest the desirability of "forcing" production facilities. This will clearly be a matter of time and price of competitive products. Another way to look at it is to conclude that there is no way that SFC can commit as much resources to tar sand technology as have already been committed by the Sun Oil Company, Canada and the province of Alberta.

Involvement in such things as heavy oil, coal/oil mixtures and peat are permissible under the statute but certainly will not constitute the major thrust of SFC's activities.

This leaves coal. Coal is located in abundance throughout the United States. The existing coal industry has been fatally weak due to an industry pattern of small ownership and the absence of circumstances under which the produce could be sold at reliable prices consistently. Coal exists throughout the United States in sufficient volume to be a reliable base for the energy needs of the future. A great deal of coal is presently unusable because of the presence of too much sulphur. Coal assets are generally not highly prized by the largest energy conglomerate (Note trade talk that DuPont will sell off some of Conoco's coal properties to raise cash). A commitment to a synthetic fuel industry based on coal would revive values, vastly increase employment in many communities across the country and focus U.S. investment just where we possess the largest competitive advantage over the rest of the world.

At the present time, all the world experts are talking of a boom in coal (see MIT's prestigious World Coal Study -- 1981, edited by Carroll Wilson) except the customers. Vast expenditures have been made over the past 20 years to improve the quality of coal for use in making steel. Now, worldwide, the steel industry is in a slump and the same coal has to be dumped on a BTU basis as boiler fuel.

SFC's briefing papers suggest our best present estimate to be that coal liquids and gas will not be competitive at current oil prices. This then is an appropriate area for SFC help because marketplace forces by themselves will not produce the result of national interest as defined in the Energy Security Act.

It should be noted that coal is the one area where other industrialized countries are also expending substantial governmental funds on research and development.6/ This should give SFC the opportunity to leverage our own financial resources by exchange of information with others.

6/ I am told that SFC personnel have not had appropriate clearance to be allowed to access all the material available with our Intelligence Agencies.

III. CONCLUSIONS

All of the above represent an effort to focus sharply on exactly what SFC is trying to do so that we can organize our procedures and allocate our resources in a disciplined manner so as to achieve the exact result desired at as little risk and cost as possible.

We could, for example, decide that the whole SFC effort really boils down to deriving liquids from coal, see infra. We might target the solicitations (Section 127(d)) in terms of a willingness to pay a particular price for liquids with particular chemical characteristics. We might indicate a willingness to pay additional premiums or vary a sharing of profit (a) for greater efficiency in the process (i.e., a lower tonage to gallon ratio); (b) for improved chemical characteristic of the liquid and (c) for any other particular measure of technological achievement on which we place importance.

This would permit a focus of the staff's attention to the specific characteristics of fuels that we wish to encourage; price levels in the future; the different kinds of coal (Section 126(a)(2)(B)); the kind of incentive arrangements we could prepare that would likely elicit response from the best American companies; amounts of earnest money deposits; performance times; and the like.

We are authorized to "obtain the services and fix the compensation of experts" (Section 171(a)(11)) without any approval required from Congress on the Executive Branch. Presumably, they could be paid from a "generic studies and specific reviews of individual proposals" (Section 120(a)(1)(A)(ii)) authorization.

Finally, the Board should be satisfied as to how we best minimize risk. We will have to answer such questions as -- is it preferable for a particular sponsor to make a substantial profit from the SFC price guarantee or to run the risk that a sponsor is unable to complete the proposed plant and SFC financial assistance is accordingly jeopardized. It is to questions of this kind that we should direct the staff's attention. Personally, I am uncomfortable voting to commit SFC resources for any pending projects until and unless I can consider them against a backdrop of the possible.

Consider the following:

SFC publishes a solicitation inviting proposals for coal based fuels (as defined) with appropriate incentives on a competitive basis. Maybe, we indicate maximum levels to show our commitment. If no acceptable sponsor makes a proposal, then, we know that we have to accept different risks. If, however, there are responses, haven't we assured a tolerable result for SFC --

1. Competitive, objective basis of award;
2. Minimized government involvement
    - private technology
    - private financing
    - no risk of project completion;
3. The Board can intelligently make a choice based on specific staff backup.

What are the problems?

1. We might pay too much. But, at least, we will have something.

EXCERPTS OF
MINUTES
# of a
MEETING
# of the
BOARD OF DIRECTORS
# of the
UNITED STATES SYNTHETIC FUELS CORPORATION

March 24, 1983

The meeting was convened at 9:30 a.m. March 24, 1983 in the Rendezvous Trianon Room of the New York Hilton Hotel, New York, New York, pursuant to the call of the Chairman and after public notice of the meeting as required by Section 116(f), 42 U.S.C. 8712(f)(1) (1980 Supp.), of the Energy Security Act and published in the Federal Register on March 16, 1983.

A quorum of the Board being present, Edward E. Noble, Chairman of the Board of Directors, called the meeting to order and presided. In addition to the Chairman, the following members of the Board were present:

John B. Carter, Jr.
Milton M. Masson, Jr.
Robert A. G. Monks
Victor A. Schroeder
Victor M. Thompson, Jr.

for price guarantees was set for December 31, 1998, consistent with the 1991 date for start of operations.

On a motion duly made by Mr. Schroeder and seconded by Mr. Masson, on a vote of 6-0, it was

> RESOLVED, that the United States Synthetic Fuels Corporation Competitive Solicitation for Gulf Province Lignite Gasification Projects presented to, and as amended in, this meeting be, and it hereby is, tentatively approved, and that the Chairman be, and he hereby is, authorized and directed to transmit it to the Corporation's Advisory Comimttee for review and to make copies of it publicly available through the Corporation's Public Reading Room.

Amendment No. 1 to the Competitive Solicitation for Oil Shale Projects

On a motion duly made by Mr. Carter and seconded by Mr. Schroeder, by a vote of 6-0, it was

> RESOLVED, that Amendment No. 1 to the Competitive Solicitation for Oil Shale Projects presented to this meeting be, and it hereby is, approved and that the Chairman be, and he hereby is, directed to publish notice of said Amendment in the Federal Register and the Commerce Business Daily.

[Said Amendment is affixed to these minutes as Annex I.]

Amendment of the System of Organization and By-Law Article IV

Mr. Schroeder stated that, as a result of Board discussions at the January 20 and February 17 meetings, it was clear that the Board wished to make structural changes in the organization of the Corporation in order to improve external communications. Therefore, he said, the Board has been requested to consider amendment of the System of the Organization and

By-laws in order to restate the functions of the Executive Vice President and the functions of the Vice President-External Relations respecting industrial relations, to establish the position of Vice President-Corporate, and to amend Article IV of the Corporation's By-laws accordingly.

Mr. Monks then presented the Compensation Committee recommendations on this topic. He said that the Compensation Committee recommends that the Board take no action today. He said that the issues associated with the establishment of the position of Vice President-Corporate and the need for such a position had not been discussed by the Board as a whole.

Mr. Monks added that, as an individual Board member, he also took the position that consideration of this question should be deferred.
Mr. Monks stated that Mr. Schroeder's memo entitled "Communications Plan," which identifies key groups and communities which would be affected by the Corporation's external communications activities, is as far as the Board has gone in analyzing its external communications requirements. Mr. Monks noted that the Board still needs to outline its objectives with regard to a communications plans. He observed that, with regard to the communications plan, the Board should make its own decision rather than the Chief Operating Officer making a decision for the Board. He noted that, neither the Coughlin plan, which contemplated a collegial approach, nor the Schroeder plan had been discussed by the Board and he suggested that it would be helpful if such discussions were held. Mr. Monks said that it is important for the members of the Board to carefully consider the role that they play in the Corporation, and he added that the Energy Security Act lacks specificity regarding the role of Board members in the

Corporation with regard to many important matters such as approval of the budget and definition of the relationship between individual Board members and the Corporation's management. Mr. Monks concluded that before the Board approves a program to address its communications needs, the Board should clarify first its function and responsibilities.

Mr. Monks then stated that he was confused about the institutional vocabulary and he noted that he had not been given an opportunity to study the Corporation's System of Organization. In addition, he commented that he was concerned over the Board's frequent amendment of the By-laws of the Corporation. He observed that it was not appropriate to amend the By-laws and System of Organization for relatively minor matters. With regard to creating a new position, he expressed general concern about the officer-staff ratio and level of officers' salaries in the Corporation. Mr. Monks concluded that in addition to his procedural concerns regarding the proposed amendment of the By-laws and the System of Organization, he also had some difficulties with the proposal on its merits.

Mr. Monks then commented on the unique status of the Congressional oversight committees with regard to the Corporation. He observed that the Congressional oversight committees represent the public and that in considering "external communications" such committees require special attention and they belong in a different category.

Mr. Monks then noted that the Corporation's Vice President-External Relations is on a leave of absence, and he expressed concern regarding the administration of the External Relations Office during this time. He remarked that the responsibilities of the President, Executive Vice President, Assistant to the Chairman, Vice President-External Relations and the proposed Vice President-Corporate appear to overlap. He then questioned the desirability of creating a new position before the specific responsibilities of existing positions are clarified. Mr. Monks concluded that he believed that action should not be taken concerning the amendment of the By-laws and the System of Organization at this time because many questions remained unresolved.

Mr. Schroeder stated that Mr. Monks had raised a number of important issues. He noted that several options were available to the Board of Directors. First, Mr. Schroeder said that the Board could take no action at this time. He noted that if the Board decided to defer action, Mr. Bowden and he would have to devote additional time to handle the matter. Mr. Schroeder then noted that, relative to a year ago, he understood the role of the oversight committees to a much greater degree and that he did not mean to slight their importance. But he added that the Corporation's communications efforts must be spread widely because Congressional interest in the Corporation is not limited to members of the oversight committees.

Mr. Schroeder commented that he had understood that the Compensation Committee had thoroughly considered the amendment of the By-laws and System of Organization associated with the communications plan and that contact on these questions had been made with the Compensation Committee members on March 9 and 10. Mr. Schroeder then asked Mr. Bowden, Executive Vice President, to discuss the matters at hand.

Mr. Bowden stated that, in preparing the materials associated with the communications plan, he discovered that the System of Organization is the controlling document for the Corporation. He noted that he too had never worked with an organization that required such frequent change of such a basic document; that he did not wish to return to the Board so frequently; and that therefore the responsibilities of the Vice President-Corporate were described in general terms. He said that the fact that the position is not described in detail is a reaction against the overspecification of the past. He noted that accountability and establishing a position should go hand in hand. He stated that he believed that the Board should make policy decisions but should leave procedural questions to the management of the Corporation. Mr. Bowden added that staff had wanted the Board to discuss this issue among themselves, and that he had been under the impression that such a discussion had taken place. He said that to the extent that the Board has not come to a policy conclusion concerning this question, further discussion should be held.

Mr. Masson then asked if Mr. Bowden was in favor of the proposed changes. Mr. Bowden stated that he favored the changes and that he had made such a statement of support to the Compensation Committee.

Chairman Noble said that he wished to direct his comments especially to outside directors. He said that Mr. Schroeder had worked very hard to address the communication gaps with the outside directors. He said that believed that it was extremely important for the communication plan to be acceptable to the outside directors for whom it was designed and that if it did not address their concerns, action should not be taken at this time.

Mr. Carter stated that he agreed with Mr. Bowden that procedural questions should be left to the decision of management. He said that he was highly aware of the Board's responsibilities under the Energy Security Act, but that he believed that procedural questions should be left to the management.

Mr. Masson commented that he was of two minds. He said that if the recommended change were designed purely for the benefit of the outside directors, then he would be in favor of further study of the question. He remarked that, on the other hand, if the changes were a response to the needs of internal management, then he would not be disturbed by the addition of another officer to the Corporation.

Mr. Schroeder stated that the impetus for the structural changes in the Corporation grew out of discussions concerning the Corporation's external communications which were held first at the October 18 meeting of the Board of Directors. He said that, at that time, the Board had recognized unfulfilled needs in the Corporation's communications activity and had identified the importance of a total approach to the total communication spectrum.

Mr. Masson commented that Mr. Schroeder's comments revealed a purpose for the establishment of the position of Vice President - Corporate which was based more broadly than merely the communications needs of the Board of Directors.

Chairman Noble then suggested that a decision on this question be deferred in order to give the Board members a chance to reconsider the issues at hand. He suggested that a teleconference could be held in ten days to resolve the issue. The Board members concurred with Chairman Noble's suggestion.

Compensation of Officers

Mr. Monks stated that the Compensation Committee had considered the recommendations of Mr. Bowden concerning the compensation of certain officers of the Corporation and recommended the salary for the position of Senior Vice President-Projects be, $76,500; Vice President-Projects, $74,000; Vice President-Administration and Treasurer, $72,000; and General Counsel and Secretary, $76,000.

On a motion duly made by Mr. Masson and seconded by Mr. Thompson, on a vote of 6-0, the Board determined that

> WHEREAS, the Compensation Committee has recommended that the salaries of the positions of Senior Vice President-Projects, Vice President-Projects, Vice President-Administration and Treasurer, and General Counsel and Secretary, be increased effective as of January 1, 1983; and
>
> WHEREAS, the Board of Directors has considered such recommendations and the rates of compensation in effect under the Executive Schedule and the General Schedule prescribed by subchapters II and III of Chapter 53 of title 5, United States Code, for positions comparable to such positions of the Corporation, it is,
>
> RESOLVED, that the compensation of the following officer positions be fixed at the rate set forth opposite such position effective as of January 1, 1983:

Officers	Annual Salary
Senior Vice President-Projects	$76,500
Vice President-Projects	$74,000

Vice President-Administration and Treasurer	$72,000
General Counsel and Secretary	$76,000

Directors' Financial Interest

Mr. Cox then stated that under section 118(c) of the Energy Security Act, a director may not vote on any resolution affecting a matter before the Corporation in which, to his knowledge, he or his spouse has a financial interest. He stated that the prohibition does not apply if the interest is disclosed and the Board determines that the interest is too remote or too inconsequential to affect the integrity of the director's service.

Mr. Cox stated that Mr. Owen J. Malone, Ethics Officer of the Corporation, had reviewed the financial information made available by each member of the Board as required by Corporation policy. Mr. Cox said that Mr. Malone had prepared a written review for the members of the Board of Directors with respect to the financial interests of Messrs. Monks and Carter. [Said Review is affixed to these minutes as Annex J.]

Mr. Cox stated that, in the opinion of Mr. Malone, the facts warrant a determination by the Board under section 118(c)(3) that the financial interests are too inconsequential to affect the integrity of Messrs. Monks' and Carter's votes on matters which might be considered at the Board meeting. On a motion duly made by Mr. Carter and seconded by Mr.

Schroeder, by a vote of 5-0, Mr. Monks abstaining, it was

> RESOLVED, that the Board of Directors by majority vote hereby determines that the financial interest of Robert A. G. Monks, a member of the Board of Directors, in Wheelabrator-Frye, Inc., Tenneco, Inc., and the Halliburton Company, disclosed at this meeting, are too inconsequential to affect the integrity of Mr. Monks' services for the Corporation in voting on any matters respecting the Northern Peat Energy and Cathedral Bluffs projects that may be acted on by the Board during this meeting.

On a motion duly made by Mr. Monks and seconded by Mr. Schroeder, by a vote of 5-0, Mr. Carter abstaining, it was

> RESOLVED, that the Board of Directors by majority vote hereby determines that the financial interest of John B. Carter, Jr., a member of the Board of Directors, in the Halliburton Company, disclosed at this meeting, is too inconsequential to affect the integrity of Mr. Carter's services for the Corporation in voting on any matters respecting the Cathedral Bluffs project that may be acted on by the Board during this meeting.

Closing the Remaining Portion of the Meeting

Mr. Cox stated that the remaining items to be considered by the Board consisted of maturity reviews and strength reviews of pending projects, the status of project negotiations, a report on a proposal for a project-specific solicitation, and consideration of a second coal solicitation. He said that, in accordance with section 116 of the Energy Security Act and the Corporation's policy on public access to Board meetings, the Board in open session must resolve to close the remaining portion of the meeting. Mr. Cox also said that, in accordance with the policy, Mr. Malone, Senior Attorney, had rendered his certification that the

Board's deliberations on the matters to be discussed during the closed portion may be properly closed to public observation.

Noting that the Board had discussed its open meeting policy at the February 17, 1983 Board meeting, Mr. Monks inquired if a formal report would be prepared on this subject in time for the April 14 meeting of the Board of Directors. Mr. Cox replied in the affirmative. Mr. Monks then stated that all proceedings of the Board of Directors which conceivably may be conducted in public should be so conducted. He said that the Corporation is doing the public's business, and that there is only a minimum of information, such as trade secrets, which should not be disclosed to the public. Referring to today's meeting, Mr. Monks said that he personally would have held the maturity and strength reviews in the open session, although he believed that a report on the status of negotiations should always be made in closed session. He said that he was not certain how he would handle consideration of a project-specific proposal. He concluded that in his view, consideration of the second coal solicitation could have been conducted in public.

Chairman Noble stated that he is in favor of making public as much of the proceedings of the Board of Directors as possible; however, he noted that he was concerned by the prospect of an inadvertent disclosure of confidential information. He noted that such a disclosure might be easily made as a result of an inadvertent question posed by a member of the Board. Mr. Monks suggested that, in order to insure against the inadvertent release of confidential information, Board members could defer discussion of specific questions regarding confidential matters to the closed session.

Chairman Noble noted that it is the policy of the Corporation to make Board minutes available shortly after each Board meeting. Mr. Cox stated that the minutes are made available after approval by the members of the Board. Chairman Noble then asked Mr. Cox for the policy of the Corporation regarding a review at six month intervals of confidential Board minutes to determine if they remain confidential. Mr. Cox said that the Energy Security Act does not require the Corporation periodically to review confidential Board materials; however, it would be possible to make a policy determination concerning this question.

On a motion duly made by Mr. Monks and seconded by Mr. Thompson, by a vote of 6-0 it was

> RESOLVED, that the remaining portion of this meeting consisting of Agenda Items X through XIV be, and it hereby is, closed to public observation, it having been determined by the Board of Directors in open session that the discussion in open session of maturity reviews and strength reviews of pending projects (Items X and XI), the status of project negotiations (Item XII), a report on a proposal for a project-specific solicitation (Item XIII), and a consideration of a second coal solicitation (Item XIV), is likely to disclose confidential commercial or financial information and matters the premature disclosure of which would be likely to impede the Corporation's ability to negotiate financial assistance agreements, which matters may properly be considered in closed session pursuant to section 116(f)(1) of the Energy Security Act.

The meeting was recessed at 12:40 p.m.

ANNEX LAST

MINUTES OF THE CLOSED PORTION OF THE MEETING MADE AVAILABLE TO THE PUBLIC PURSUANT TO RESOLUTION OF THE BOARD

That portion of the March 24, 1983 meeting of the Board of Directors of the United States Synthetic Fuels Corporation closed pursuant to a motion duly made, seconded and unanimously adopted in open session, was called to order at 1:35 p.m., by Chairman Edward E. Noble in Room 537, New York Hilton Hotel, New York, New York. In addition to the Chairman, the following members of the Board were present:

John B. Carter, Jr.
Milton H. Masson, Jr.
Robert A. G. Monks
Victor A. Schroeder
Victor M. Thompson

The following officers and employees of the Corporation were also present:

Jimmie R. Bowden, Executive Vice President
Leonard C. Axelrod, Vice President-Technology and Engineering
Charles A. Cowan, Jr., Senior Vice President-Projects
Ralph L. Bayrer, Vice President-Projects
Edward F. Cox, General Counsel and Secretary
Dwight A. Ink, Vice President-Administration and Treasurer
S. Kenric Lessey, Jr., Inspector General
Darrel W. Lundquist, Vice President-Planning
Edward S. Miller, Vice President-Finance
Jeffrey A. Lipkin, Deputy General Counsel
Robert Gambino, Deputy Inspector General
Andrew P. Tashman, Assistant General Counsel
Jeanine L. Matte, Senior Attorney
Richard Shanklin, Project Officer
Frank Hill, Senior Financial Analyst
Graham Matthews, Director of Senate Relations
Donald Thibeau, Executive Assistant to the Chairman
Betty Nolan, Senior Policy Advisor
Judith Fox, Legal Assistant

Consideration of Third Solicitation Project Maturity Reviews

Mr. Cowan stated that staff had recommended that the Board drop the following projects from the Third Solicitation: MAPCO, Hampshire, Breckinridge, Wolf Den, and Big Horn. He said that the staff recommended that the following projects pass the maturity review: Paraho, Cottonwood Wash, World Energy, Iron City, Sunnyside, Kentucky Tar Sands, and Northern Peat. He noted that Beluga and Ohio I had withdrawn from the Third Solicitation and therefore would not be presented to the Board for consideration.

Mr. Monks inquired why the Board had deferred action on the MAPCO project at the January 20 meeting of the Board of Directors. Mr. Cowan replied the MAPCO project was making a concerted effort to assemble its equity and its engineering effort at that time. He stated that now it has become apparent that the MAPCO project cannot possibly meet the Corporation's maturity requirements and, therefore, staff is recommending that it be dropped from further consideration in the Third Solicitation.

Mr. Masson suggested that the Board pass the Big Horn project in light of a letter that was sent by the project to the Board of Directors requesting a postponement. He observed that the Big Horn project reminded him of Geokinetics in that it is a small project, made up of small investors, requesting a small price support. He added that he believes the Corporation should give small projects every possible opportunity. Mr. Bayrer replied that the additional information which the Big Horn project proposes to submit to the Corporation would not respond to the project's key maturity problems.

Mr. Schroeder stated that he would like to take exception to the staff recommendation to drop Hampshire and Breckinridge from the Third Solicitation.

> [Material Withheld: There ensued project-specific discussions concerning the status of the Hampshire and Breckinridge projects.]

Mr. Monks observed that a great deal of private capital has been invested in the Breckinridge project. He said that the Breckinridge project was "reality," that its development should be encouraged, and the project should not be dropped at this time. (Mr. Steven Gottlieb, Director of Environment, joined the meeting.)

Mr. Schroeder observed that Breckinridge was the only project of its type. He then agreed with Mr. Monks that action on the project should be deferred at this time. Chairman Noble concurred.

Chairman Noble then suggested that the Board continue its discussion concerning the Big Horn project. He asked if every Board member had received a letter from the Big Horn project and the Board members stated that they had.

Chairman Noble stated that he saw no possibility that Big Horn would be able to satisfy the Corporation's maturity requirements in the near term. He said that he was concerned about complaints that the Corporation is only interested in big companies and inquired what the the situation would be if the Corporation deferred action on the Big Horn project.

Mr. Bowden stated that deferring action on the Big Horn project would lessen the integrity of the process. He said that the same would be true if action were deferred on the Hampshire and Breckinridge projects. Mr. Bowden commented that if the Board issued a targeted solicitation, then Hampshire and Breckinridge could receive consideration under it. He said that it would be possible to develop a solicitation that would be project-type specific. He added that, in the case of Breckinridge, if action were deferred for any considerable length of time, the possiblity of issuing a joint venture solicitation for a direct liquefaction project would be foreclosed.

Mr. Masson questioned why this was the case. Mr. Bowden replied that in order to issue a joint venture solicitation, the Board has to have made a determination that a direct liquefaction project could not be secured through the regular solicitation process.

Mr. Schroeder commented that deferring the Breckinridge project would result in a delay in the joint venture solicitation, but it would not cancel the possibility of a joint venture solicitation. Mr. Bowden then suggested that the Board might find the staff presentation on the targeted solicitations helpful on this question. The Board members then concurred that they would defer action on the staff's recommendations until after they had heard the presentation on the targeted solicitations.

Status Report on Projects in Negotiation

Mr. Cowan stated that the first issue for consideration concerned a review of *Calsyn*'s eligibility. He then requested that Mr. Cox briefly discuss the memorandum which the Office of General Counsel had prepared on *Calsyn*. Mr. Cox stated that the Office of General Counsel had very carefully examined the issue, had held discussions with DOE and Corporation staff, had secured the advice of outside experts and had come to the conclusion that Cat Canyon, San Ardo, and San Joaquin Valley Blend heavy oils are eligible feedstocks for the *Calsyn* project.

Mr. Monks then inquired if the *Calsyn* project sponsors [

].

Mr. Schroeder stated that the outstanding issue which remains for the *Calsyn* project is whether the Canadian sponsors may test Canadian tar sands in the *Calsyn* plant. He noted that the Canadian sponsors had originally requested 10% of plant capacity for their tar sands but that they had agreed that 3 to 6% would be sufficient. Mr. Schroeder noted that even 3% is highly unlikely when transportation costs are taken into account; however, he added that it is still hard to explain why a United States project would test Canadian tar sands.

Mr. Bowden stated that the proposed limit was 3% over the life of a project but up to 10% in any one year.

Mr. Cowan noted that [

]. Mr. Bowden added that it was permissable under the Act to have a de minimis amount of foreign feedstocks for the purpose of selling the technology.

Chairman Noble stated that [

]. Mr. Schroeder said, that as he understood it, [

].

Mr. Cox commented that the 3% figure is for all testing, not just for the testing of Canadian tar sands.

Mr. Axelrod then commented that a reasonable testing period might be two to five weeks. He said that an adequate testing period might be different for domestic stocks.

Chairman Noble observed that the Calsyn project had only requested a loan guarantee; therefore, he did not consider the Canadian question to be as great of a problem as it might have been if the project had requested a price guarantee. Chairman Noble then inquired who was signing the note and Mr. Hill replied that the Calsyn project would sign the note.

Mr. Monks then inquired of Mr. Cox if the arrangement would satisfy the definition of de minimis. Mr. Cox said that the arrangement as set forth - 3% over the life of the project and up to 10% in any one year - would be satisfactory.

Mr. Cowan then described the status of the Coolwater project. He said that the Corporation [

].

Mr. Cowan reported that with regard to the Hop Kern project,

> [Material withheld: There ensued a project-specific briefing concerning the status of the Hopkern project.]
>
> [Material withheld: There ensued a project-specific briefing and discussion concerning the status of the First Colony project.]

Mr. Cowan then reported that fact finding session had been held with the Kensyntar project and that the project had been asked to submit supplementary data.

Mr. Cowan then reported that negotiations had been held with the North Alabama project. [
].

Mr. Cowan then reported that the Santa Rosa project was on schedule and that [
].

Mr. Cowan reported that several telephone conversations had been held with the Scrubgrass project. He said that a list of questions had been sent to them which would be returned shortly.

> [Material withheld: There ensued project-specific briefings and discussions concerning the Keystone and New England Energy Park Projects.]

Mr. Cowan stated that New England Energy Park has suspended its operations for the present. He stated that the project [
].

Mr. Cowan reported that one meeting had been held with the KILnGAS project and that the Corporation staff views the KILnGAS project as a [ ] project.

Mr. Cowan noted that one meeting had been held with the Dowsyn project. He said that the project was [ ]. He reported that the staff saw [ ] for this project.

Mr. Cowan reported that a meeting with the Memphis project will be held on March 28th to discuss

> [Material Withheld: There ensued a project-specific briefing and discussion concerning the status of the Memphis project.]

Mr. Cowan reported that several meetings had been held with the Union Phase II project, that the staff is currently analyzing information submitted by the Union Phase II project, and that additional information will be forthcoming.

Mr. Cowan stated that one meeting had been held with the Seep Ridge project since the last Board meeting. He stated that the project [ ]. Mr. Cowan added that the Corporation has requested additional information from the Seep Ridge project concerning the [ ].

Mr. Cowan reported that two meetings had been held with the White River project. He noted that [ ].

Mr. Cowan observed that the Cathedral Bluffs project was also being [ ].

The question was then raised as to whether the above-mentioned shale projects used the same Union retorting technology. Mr. Bayrer replied that White River, Cathedral Bluffs and Union Phase II rely on Union technology, but that Cottonwood Wash and Paraho use the Paraho technology and Syntana uses the Superior technology.

Mr. Cowan stated that several meetings had been held with the Sunnyside project which had focused on Sunnyside's [ ].

Mr. Cowan stated that the ENPEX project is currently [ ].

Mr. Cowan stated that one productive meeting had been held with the Chapparosa project, and that Chapparosa [ ]. He noted that Chapparosa was requesting a price guarantee only.

Mr. Cowan reported that some projects had had no negotiation sessions but that they would come on in time. He noted that these projects include Means Oil Shale, Forest Hill, and American Syn Crude.

Third Solicitation Project Strength Reviews

Mr. Bayrer then reviewed the status of the Cathedral Bluffs, Union Oil Phase II, White River, Seep Ridge, and Dowsyn projects.

Mr. Bayrer reported that four of the projects presented to the Board for Strength Review were oil shale projects -- White River, Union Phase II, Seep Ridge, and Cathedral Bluffs -- and that of these, Union Phase II, Cathedral Bluffs, and White River rely upon Union surface retorting, Cathedral Bluffs would also include modified in situ retorting, and Seep Ridge employs true in situ retorting.

> [Material Withheld: There ensued project-specific briefings and discussions concerning the Cathedral Bluffs, Union Phase II and White River.]

Mr. Masson then asked for clarification regarding the Strength Review of the Union Phase II project in which he had seen a reference to "initial" water availability. Mr. Gottlieb replied that the solicitation specifies that a full project expansion assessment must be done. He stated that Union Phase II has secured all its permits for the first module and that staff anticipates no problem with regard to additional modules.

Mr. Bayrer then briefed Board members on the the Seep Ridge project. He noted that Seep Ridge uses a true in situ process which differs considerably from the other shale projects before the Corporation. He said that, [

].

Mr. Bayrer then briefly discussed the status of the Dowsyn coal project.

> [Material Withheld: There ensued a project-specific briefing and discussion concerning the status of the Dowsyn project.]

On a motion duly made by Mr. Monks and seconded by Mr. Schroeder, by a vote of 6-0, it was

> RESOLVED, that the Dowsyn, Cathedral Bluffs, White River, Union Oil Phase II, and Seep Ridge projects be, and they hereby are, advanced to Phase II under the Third Solicitation, subject to the conditions presented to this meeting for said projects, if any.

Competitive Solicitations for Coal-Based Synthetic Fuels Projects

Mr. Shanklin then reported on the status of potential additional coal solicitations. He stated that at the last meeting the Board had expressed preference for eastern bituminous gasification projects, midwestern bituminous gasification projects, and western subbituminous gasification projects. He noted that, in discussions with industry concerning the coal solicitations, industry representatives had expressed the view that a 7500 barrel per day project would be too small. He remarked that increasing the size of the project would affect the size of the Reservation Bid because of the tougher technical problems involved. He noted that the range of price support levels is not known but that it would probably be higher than for the Lignite Solicitation. [Staff report on "Competitive Solicitation for Coal-Based Synthetic Fuels Projects," is affixed to these minutes as Annex O.]

Mr. Bowden then commented on the relation of the Third Solicitation projects to the targeted solicitations. He said that the Third Solicitation projects will in general reach a "go" or "no go" position in two months or at the outside, by the end of the summer.

Mr. Bowden stated that the staff recommended to the Board that it should not pick a single resource at this time; instead it should direct the staff to prepare solicitations for all three types of coal projects. He said that the schedule for preparing one solicitation would be the same as the schedule for preparing three solicitations.

Mr. Bowden noted that a seminar on the targeted coal solicitation has been scheduled for the April 18 semi-annual meeting of the National Council on Synthetic Fuels Production. In addition, he said that the coal gasification subcommittee of the American Gas Association has scheduled a discussion session on April 12 with the Corporation regarding the targeted coal solicitations.

Mr. Bowden stated that in addition to work on the targeted solicitations staff would continue to perform financial analyses and evaluate the progress of the Third Solicitation.

Mr. Shanklin then reviewed the Timetable for the Development of the Targeted Solicitations. [Said Timetable, is affixed to these minutes as Annex N.]

Mr. Masson then observed that it was important for the Board to know where the projects in the outstanding solicitations stood before it issued any additional solicitations. Mr. Shanklin replied that although the Board will not know for certain, it will have a good idea as to the disposition of projects in the Third Solicitation by the time that the targeted coal solicitations would be approved by the Board.

Mr. Bowden commented that it was important for the Board to be mindful of the status of the existing projects. He said that issuing a targeted solicitation takes a set amount of time. He noted that if the Board accepts the staff recommendation to prepare the three targeted coal solicitations, then the Board will not have to make its final decision on any of the three solicitations until May. In addition, he said, decisions can be deferred on the Hampshire, Breckinridge and Big Horn projects, if the Board wishes, for 60 days. Mr. Bowden noted however, that if a joint venture solicitation is in the works, deferring action on the Breckinridge project could be prohibitive.

The Board members concurred that staff should prepare the three coal solicitations for Board consideration at its May meeting.

Consideration of Joint Venture Solicitation

Mr. Shanklin then stated that he wished to identify the key legal and procedural questions associated with issuing a joint venture solicitation for direct coal liquefication. First, he said that the Corporation is authorized to commit to or enter into joint ventures only where the Board determines that neither price guarantees, purchase agreements, nor loan guarantees will adequately support the construction and operation of a synthetic fuel project, or, where such forms of assistance will restrict the available participants for such project. He added that the Corporation may be compelled to conduct a parallel targeted competition in order to demonstrate that other forms of financial assistance are inadequate to support a direct liquefaction project. Second, Mr. Shanklin said that a joint venture must be a modular project capable of replication and expansion. Third, Mr. Shanklin noted that there are considerable time constraints placed upon the joint venture solicitation. He said that the Corporation must commit to a joint venture prior to the approval of the Recommended Comprehensive Strategy. He noted that this implies a commitment of funds and a reservation of obligational authority in the Energy Security Reserve. Fourth, Mr. Shanklin reminded the Board that, in a joint venture, Corporation financing is limited to 60 percent of total costs. He noted that although counsel has not reached a definitive opinion, these costs should include monies for design, construction and operation up to a limit of 15 percent of the total obligational authority of the Corporation as authorized by section 152.

> [Material Withheld: There ensued a project-specific discussion concerning the Breckinridge project.]

Mr. Masson then suggested that the Corporation forget direct liquefaction and direct its funds into other operational technologies. Mr. Schroeder replied that he did not know if this approach was realistic because the Corporation did not currently have the prospect of three solid coal plants. Mr. Schroeder added that he would like to spend the time and money now to prepare the joint venture solicitation and then make a decision as to whether it should be issued at a later date.

Mr. Thompson observed that he did not know if the Corporation had the credibility to sell a joint venture solicitation for direct liquefaction. Mr. Carter observed that, with a $3 billion project limit, Congress may have written the Corporation out of direct liquefaction. Mr. Schroeder commented that, although that had not been Congress' intent when the Energy Security Act was written and passed, rising plant costs may very well mean that a direct liquefaction project would cost more than $3 billion. Mr. Schroeder then stated that although he had
[ ].

Mr. Masson stated that, on further consideration, he believed that the proper approach would be to prepare the joint venture and parallel targeted solicitations for direct liquefaction and have them on the shelf ready to go.

Mr. Schroeder remarked that if the joint venture solicitation required the development of a companion targeted solicitation, the Corporation would need to direct Projects Office staff to this task in order to adhere to the tight joint venture schedule. Mr. Cowan observed that staff could not be spared for this purpose. Mr. Bowden stated that he did not think that it was possible to do the three targeted coal solicitations, the joint venture solicitation and the companion direct liquefaction solicitation all by May.

Mr. Schroeder then suggested that the Corporation could hire an outside firm to draw up the joint venture solicitation. Mr. Bowden remarked that he did not believe that there was enough time to hire an outside firm and have them complete the joint venture solicitation by May.

Messrs. Axelrod and Cowan then suggested that the two direct liquefaction solicitations could be prepared for the June Board meeting, one month after the May deadline for the three targeted coal solicitations. The Board members concurred that this was an appropriate course of action.

Third Solicitation Maturity Review

Chaiman Noble then suggested that the Board return to its Maturity Review.

Mr. Bowden stated that the Board must take one position or the other with regard to Hampshire and Breckinridge. He said that if the Board extends the time frame for Maturity Review, the Board members would foreclose the opportunity to develop a targeted solicitation specifically geared toward Hampshire or Breckinridge project types. Mr. Schroeder stated that he agreed with Mr. Bowden. Mr. Monks also agreed with Mr. Bowden and noted that, if the projects were dropped, the Corporation could make it clear at that time that a targeted solicitation was in the works. Mr. Bowden then stated that although the Corporation should inform these projects that the Board is considering a targeted solicitation, care should be taken so as not to commit the Corporation in any way.

Chairman Noble then stated that as an alternative, the Board could defer action at this meeting and vote on Hampshire and Breckinridge at the April meeting of the Board of Directors. Mr. Bowden observed that there [ ].

Mr. Masson said that the Board shouldn't group Breckinridge and Hampshire together because they represent substantially different situations. He said that, in his view, there would be no problem for the Corporation to defer action on the Hampshire project. He commented that, on the other hand, Breckinridge is a different matter because of the joint venture question. He stated that there may be considerable risk in deferring action on the Breckinridge project.

Mr. Bowden then stated that there was another important consideration to keep in mind namely that the Corporation only has so much money to cover its projects and therefore proposals cannot be strung out indefinitely. He suggested that the Breckinridge and Hampshire be advised in a straightforward manner that they have 30 days to improve their situation or they will be dropped from consideration. Furthermore, he said, the Board should authorize the staff to tell all coal project sponsors precisely what the implications of four targeted coal solicitations are for Second and Third Solicitation projects in terms of timing and availability of funding.

Mr. Masson then suggested that the Big Horn project be kept in for an additional 30 days. Mr. Axelrod then summarized the project's key technological weaknesses for the Board and explained that, in his estimation, the work which Big Horn proposed to do during the deferral period would not resolve the project's technological difficulties.

Chairman Noble then asked for a sense of the Board regarding Mr. Bowden's suggestion that the projects under consideration be informed of the Corporation's time line and its financial constraints. The Board members then concurred that this was an appropriate course of action.

Mr. Bowden then suggested that the Board could defer its decision on Breckinridge and Hampshire 90 days if it sent a draft solicitation to the Advisory Committee with the understanding that the Board was considering its approval. He stated that the Board could defer for 60 days if it first approved a solicitation and then sent it to the Advisory Committee. The Board members then concurred that 60 days would be an appropriate period of time to give to the two projects.

On a motion duly made by Mr. Thompson and seconded by Mr. Monks, by a vote of 6-0, it was

> RESOLVED, that the MAPCO, Wolf Den, and Big Horn projects not be advanced to the Phase I Strength Review under the Third Solicitation and not be considered further under that Solicitation; and further
>
> RESOLVED, that the Paraho, Cottonwood Wash, World Energy, Iron City, Sunnyside, Kentucky Tar Sands, and Northern Peat projects be, and they hereby are, advanced to the Phase I Strength Review under the Third Solicitation, subject to the respective conditions, if any, presented to this meeting for said projects.

The meeting was adjourned at 3:45 p.m.

The following documents were considered during the closed session:

1. Third Solicitation Project Maturity Reviews: MAPCO, Hampshire, Breckinridge, Wolf Den, Big Horn, Paraho, Cottonwood Wash, World Energy, Iron city, Sunnyside, Kentucky Tar Sands, and Northern Peat.
2. Memorandum on Eligibility - Calsyn Project.

MINUTES of a MEETING of the BOARD OF DIRECTORS of the UNITED STATES SYNTHETIC FUELS CORPORATION

May 26, 1983

The meeting was convened at 9:20 a.m., May 26, 1983, in the Williams Plaza Hotel, Tulsa, Oklahoma, pursuant to the call of the Chairman and after public notice of the meeting as required by Section 116(f) of the Energy Security Act, (42 U.S.C. 8712(f)(1) (1980 Supp.)), and published in the *Federal Register* on May 16, 1983.

A quorum of the Board being present, Edward E. Noble, Chairman of the Board of Directors, called the meeting to order and presided. In addition to the Chairman, the following members of the Board were present:

John B. Carter, Jr.
Milton M. Masson, Jr.
Robert A. G. Monks
Victor A. Schroeder
Victor M. Thompson, Jr.
C. Howard Wilkins, Jr.

Edward F. Cox, General Counsel and Secretary, acted as Secretary of the meeting.

Chairman's Opening Remarks

[The complete text of the Chairman's opening remarks is affixed to these minutes as Annex A.] Chairman Noble concluded by announcing that the previous day he had signed a letter of intent for a loan guarantee with the Calsyn project located in Pittsburg, California. He stated that it was the fourth such agreement which he had signed and that he anticipated closing with this project in the next few months.

Approval of Minutes of the April 13-14, 1983 and April 25, 1983 Meetings

On a motion duly made by Mr. Thompson and seconded by Mr. Schroeder, by a vote of 4 to 0, Messrs. Carter, Wilkins and Monks abstaining, it was

> RESOLVED, that the minutes of the meetings of the Board of Directors held on April 13-14, 1983 and April 25, 1983 be, and they hereby are, approved; and further
>
> RESOLVED, that it is the judgment of the Board of Directors that those portions of the minutes of the closed portion of the meeting of April 13, 1983 relating to the Board's deliberations concerning specific qualification proposals received under the Corporation's Competitive Solicitation for Oil Shale Projects and project strength reviews covering projects pending under the Corporation's Third Solicitation may be withheld from public disclosure pursuant to the provision of subsections 116(f)(1)(B)(ii)(II) and 116(f)(1)(C)(4) of the Energy Security Act.

President's Report

[The complete text of the President's Report is affixed to these minutes as Annex B.]

Operations Report of the Executive Vice President

[The complete text of the Operations Report of the Executive Vice President is affixed to these minutes as Annex C.]

Standard Terms and Conditions for the Gulf Province Lignite Solicitation

Chairman Noble then called upon Jeanine Matte, Senior Attorney, and Richard Shanklin, Project Officer, to give a presentation concerning the Standard Terms and Conditions for the Lignite Solicitation. [The complete text of the Standard Terms and Conditions for the Gulf Province Lignite Solicitation is affixed to these minutes as Annex D.]

Ms. Matte recalled that the Competitive Solicitation for Gulf Province Lignite Projects had been issued by the Board at its April 25, 1983 meeting, and that, in accordance with section 2.4 of the Solicitation, the Standard Terms and Conditions were to be made available by the Corporation on May 27, 1983. She stated that the proposed Standard Terms and Conditions for the Gulf Province Lignite

Solicitation basically followed the Standard Terms and Conditions previously adopted by the Board in connection with the Oil Shale Solicitation. She stated that, because the Standard Terms and Conditions for the two solicitations were so similar, she would not review the Standard Terms and Conditions for the Lignite Solicitation in detail, but, rather, would point out the differences between the two Standard Terms and Conditions. She stated that the principal modification in the Standard Terms and Conditions for the Lignite Solicitation addressed the possibility of multiple products receiving price guarantee assistance. She noted that the modifications in this regard appeared in section 2 and Annex B of the Standard Terms and Conditions.

Chairman Noble asked if the provisions for recapture in event of shutdown were the same for the Lignite Solicitation as they were for the Oil Shale Solicitation. Mr. Shanklin replied in the affirmative. He then commented that the staff had added section 2.7, Index Adjustment, in order to relieve uncertainty regarding the prediction of 1990 market prices. Chairman Noble then asked how the Corporation could renegotiate without affecting the Corporation's maximum liability. Mr. Shanklin replied that the renegotiation would involve the schedule of the price guarantee payment and not the total dollar amount.

Chairman Noble then suggested that the Board vote on the Standard Terms and Conditions. Mr. Wilkins stated that he was concerned about internal matters regarding the organization of the Corporation and its

Board. He commented that he hoped that these matters would be resolved and that, until that time, he preferred to abstain from voting.

On a motion duly made and seconded, by a vote of 5 to 0, Messrs. Monks and Wilkins abstaining, it was

> RESOLVED, that the Standard Terms and Conditions for the Competitive Solicitation for Gulf Coast Lignite Projects presented to this meeting be, and they hereby are, approved, and that the Chairman be, and he hereby is, authorized and directed to make copies publicly available through the Corporation's Public Reading Room, and to prospective bidders under such solicitation.

Progress Report on the Development of the Recommended Comprehensive Strategy

[The complete text of "Report to the Board of Directors on the Recommended Comprehensive Strategy" presented by David S. Hirschfeld, Director, Strategic Planning, is affixed to these minutes as Annex E.]

Mr. Schroeder noted that the summaries prepared by the Planning staff concerning the Recommended Comprehensive Strategy were very useful, and he inquired if the Planning staff intended to distribute them to the Board of Directors before or after the Planning briefings. Mr. Hirschfeld stated that the staff had planned to distribute the summaries after the briefings but, if so requested by the Board, Planning would happily distribute them before the briefings. Mr. Schroeder stated that the charts prepared by the Planning Office were very helpful and that the summaries should be given to the Board before the briefings.

Organization of Committees by the Board; Delegation to Chairman; Amendment of System of Organization; Amendment of By-Laws to Describe Officer Functions by Reference to System of Organization

Mr. Bowden stated that he would discuss jointly the organization of committees of the Board, delegation to the Chairman, amendment of the System of Organization, and amendment of the By-laws to describe officer functions by reference to the System of Organization because the topics are interrelated. He said that the changes were called for because of the increased workload associated with preparations for the commitment of funds to projects and the development of the Recommended Comprehensive Strategy. He said that, in addition to workload considerations, he believed these changes would improve communications on the Board-to-staff level, the Board-to-Board level, and the staff-to-staff level. He noted that, because the Board has so many nondelegable duties under the statute, it is more heavily involved in the internal operations of the Corporation than it would be if it were the Board of a private corporation. Mr. Bowden remarked that the recommended changes were an outgrowth of staff discussions and input from members of the Board of Directors. ["Committees of the Board" is affixed to these minutes as Annex F. "Delegation of Authorities Powers/Functions/Duties" is affixed to these minutes as Annex G. Proposed System of Organization is affixed as Annex H. Amended Articles of the By-laws are affixed as Annex I.]

Mr. Bowden said that the first change, regarding committees of the Board, concerned the creation of two new committees: a Projects Committee and a Committee for the Comprehensive Strategy. He said that the purpose of these two new committees was to allow more constant communication between the staff and outside directors on these two critical programmatic areas.

Mr. Bowden then commented that the specific structure and operation of the two committees should be decided by the committees themselves. He said that the staff suggested that a minimum of one committee meeting should be held between each scheduled meeting of the Board. He suggested that the new committees consist of one inside and two outside directors. He said that he strongly recommended the creation of the two new committees because the committees would improve Corporation interaction and communication and would enable the directors to consider carefully important matters concerning projects and the Recommended Comprehensive Strategy between Board meetings. He suggested that an outside director who sits on one of the new committees could brief a director who is not a member after each committee meeting.

Mr. Bowden noted that the Energy Security Act and the Corporation's By-laws allow committees to be created and also allow for non-voting members from among staff and officers of the Corporation. He said that, for the proposed Projects and Comprehensive Strategy Committees, nonvoting membership by officers of the Corporation would be very useful. He said that standing membership by staff members or officers was probably not a good idea for the Audit and Compensation Committees; however, he recommended that officers whose work directly involves these two committees should be prepared to provide management input at the meetings as requested by the members of the committees.

Mr. Bowden then described the responsibilities of the committees of the Board. He said that the new Projects Committee would discuss and advise the Board of Directors with respect to the Corporation's policies concerning the solicitation and evaluation of project proposals, negotiation and award of financial support, and monitoring of projects. He said that the Comprehensive Strategy Committee would be empowered to discuss and advise the Board of Directors with respect to the development of policies and options for the Recommended Comprehensive Strategy of the Corporation. Mr. Bowden said that the Audit Committee would be empowered to discuss and advise the Board of Directors with respect to such matters as audit committees of private corporations discuss and advise their Boards of Directors; and, further, to establish continuing liaison with, consult with and review reports of the Inspector General of the Corporation, to advise the Board with respect thereto, and to report to the Board on matters of concern to the Inspector General.

Mr. Bowden then reported that the powers of the Compensation Committee would be amended to authorize the Committee to discuss and advise the Board of Directors with respect to the Chairman's recommendations on officer appointments and salaries and the salaries of categories of employees; and further, to discuss and advise the Chairman with respect to the Chairman's recommendations on benefit plans for officers and employees. Mr. Bowden concluded that the committees do not and are not intended to cover all the responsibilities of the Board. Further, he said, the creation of the new committees is not intended to broaden the power of the Board or encroach upon the power of the Chairman.

Mr. Bowden stated that, if the two new committees are approved by the Board, their first task will be to determine committee boundaries, areas of interest, and to take measures to prevent the overlap of responsibilities. He said that decisions must be made as to whether the committees should be separately budgeted by the Board and also whether a staff should be assigned to the committees. He said that, in his opinion, the committees should not issue independent reports. He said that it would be useful for the Projects Committee to have a separate budget for site visits undertaken on behalf of the Board. He noted this budgetary idea was suggested by a member of the Board.

Mr. Bowden said that the next set of changes concerned amendment of the System of Organization. He said that the proposed changes in the System of Organization were designed to simplify officer descriptions, provide flexibility, and establish the position of Vice President-Corporate Affairs. He said that under the description of the

President's duties, the key change concerned the addition of explicit responsibility for the Chairman to approve the administrative budget. He said that previously this responsibility had only been implicit. He said that, in addition to the brief description in the System of Organization, the materials prepared for the Board concerning the delegation of authority from the Board of Directors to the Chairman delineate the Chairman's responsibilities and authorities. Second, he said that the description of the President's responsibilities was essentially unchanged. Third, he stated that the description of the position of Executive Vice President remained the same except for an added reference to the position of Vice President-Corporate. Fourth, he said that the description of the Secretary and Secretary Group, Vice President and General Counsel and Legal Services Group, Treasurer and Treasury Group, were parallel to the present descriptions. He noted that the By-laws currently permit one person to hold more than one title. He stated that the offices of Secretary and Treasurer are at present secondary titles for two officers of the Corporation.

Fifth, he noted a change in wording in the description of the Office of Planning. He said that the Vice President-Planning and the Office of Planning henceforth would be referred to as Vice President-Policy Development and the Policy Development Group. He said that the Policy Development Group would be responsible for developing options for the Corporation's policies and strategies for the synthetic fuels industry. He observed that this description is consistent with the Planning Office's responsibilities for the past year.

He continued that the descriptions of the Senior Vice President-Projects and Projects Group, the Vice President-Projects, the Vice President-Finance and Finance Group, the Vice President-Technology and Engineering and Technology and Engineering Group, and the Vice President-Administration and Administration Group run parallel to the present descriptions.

He said that, as discussed in previous meetings of the the Board of Directors, the revised System of Organization provided for the creation of a new office of Vice President-Corporate Affairs and the Corporate Affairs Group. He stated that the Vice President-Corporate Affairs would be responsible for management and direction of the Corporate Affairs Group and would report to the Executive Vice President. He added that the Corporate Affairs Group would coordinate communications with the Board of Directors and the Executive Branch of the Federal Government.

Mr. Bowden then stated that the description of the Vice President-External Relations and External Relations Group remains the same except for the deletion of responsibility for industry relations, which has been transferred to the Executive Vice President. Mr. Bowden then stated that the duties of the Inspector General and Deputy Inspector General are as specified in § 122 of the Energy Security Act. Mr. Bowden continued that, as in the present By-laws, the last section of the System of Organization states that each officer has the authority to create under him the subordinate organization and elements which carry out the specific operations. He explained that, under the Energy Security Act, the Board of Directors' responsibility for the operations of the Corporation stops at the level of officer election. He noted that the officers of the Corporation have operational responsibility for the day-to-day affairs of the Corporation, and that hiring beneath the officer level is the responsibility of the officers of the Corporation.

Noting that heretofore the Audit and Compensation Committees have acted as advisors to the Board and the Chairman, Mr. Thompson asked if it were contemplated that the new committees would have decision-making power. Mr. Bowden replied that none of the committees has decision-making power as presently constituted. He said that, if a committee were to have decision-making power, it would have to have at least four Board members present and voting; and furthermore, the four votes would have to be affirmative. He added that, under the statute, the presence of four Board members would require that a notice of meeting be placed in the Federal Register.

Mr. Carter stated that he had sympathy for Mr. Bowden's objective to improve communications with the Board members. He noted, however, that the members of the Board have had an exceptional attendance record for their meetings. He stated that he was concerned that the Board would be building another level of bureaucracy by creating the new committees.

He expressed concern about an organization in which some members of the Board had first-hand information from staff regarding projects and the Comprehensive Strategy and others did not. He suggested that perhaps the Board should meet by teleconference on matters concerning projects and the Recommended Comprehensive Strategy, and then there would not be a potential for problems in the translation of information from one Board member to another. He concluded that, in general, he was opposed to the expansion of any committee structure.

Mr. Thompson then suggested perhaps the same ends could be achieved by setting up regular briefings for all the Board members to be held by teleconference in between the regular scheduled meetings. Mr. Carter concurred. He remarked that the expanded committee structure could lead to greater rather than lesser frustrations on the part of the Board because of delays in communication.

Chairman Noble stated that it should be understood that under the Energy Security Act a briefing of the Board other than in a meeting of the Board must be a nondeliberative event. He said that if the Board members believe that briefings could accomplish the goals which the Projects Committee and the Comprehensive Strategy Committee were intended to meet, then he would support such a move. He said that the principal objective is to facilitate Board communications. He said that he recognized that it was hard to transmit the same information to seven people unless all are present at the same time.

Mr. Cox stated that in a Board briefing, which would consist primarily of presentations by the staff and senior management, the Directors could ask questions, but they would not be permitted to undertake discussions with the intent or effect of forming a consensus regarding policy. He said that the Energy Security Act permitted Board briefings outside of Board meetings only for the transmittal of factual information.

Mr. Bowden then reminded the Board that replacing the proposed committee structure with a series of briefings does reduce the number of meetings of the members of the Board. He suggested that briefings could either be held the day before a Board meeting or in the middle of the month between Board meetings. Mr. Bowden stated he believed that the briefing structure would be easier for the staff and would provide greater information for the members of the Board.

Chairman Noble remarked that Messrs. Carter and Thompson had raised valuable points. He said that he definitely wished to convey all possible information to the Board, keeping in mind that the Board members have limited time and staff to help them prepare for the meetings. Chairman Noble continued that the Energy Security Act contains stringent rules regarding publicity of meetings and requirements that they be held in open session. He said that some of the requirements of the Act have led to discontent among the members of the Board because they feel that they lack important information to aid in their deliberations.

Mr. Masson stated that he agreed with Mr. Carter. Chairman Noble then requested a sense of the Board concerning the proposed Projects and Comprehensive Strategy committees. The Board members concurred that no new committees should be established and that briefings should be held to inform the Board on these matters.

Mr. Thompson, Chairman of the Audit Committee, then requested clarification regarding the resolutions before the Board concerning the Audit Committee. Mr. Cox replied that the key wording change was the substitution of the word "review" in place of the word "discuss" in the description of the Committee's responsibilities. Mr. Jeffrey Lipkin, Deputy General Counsel, concurred. He said that the wording change was not substantive and had been recommended by the staff in order to emphasize the advisory nature of the Audit Committee. He said that, also, the wording changes were suggested in order to conform the descriptions of the existing committees to the descriptions of the two proposed, and now rejected, committees.

Chairman Noble then suggested that action should be deferred on the resolutions concerning the Audit Committee so the Board can more fully consider the ramifications of the wording changes.

Mr. Cox then stated that the Compensation Committee resolution effected conforming changes required by the proposed Delegation of Power to the Chairman with respect to benefit plans and requested that the Deputy General Counsel discuss the proposed resolution concerning the Compensation Committee. Mr. Lipkin explained that the Compensation

Committee currently operates under two resolutions. He said that the first states that the Committee shall consider and make recommendations to the Board of Directors with respect to such matters as may be requested from time to time by the Board of Directors. He said that the second states that the Compensation Committee shall consider management's recommendations concerning officer appointments, removals, salaries and benefits, and also salaries and benefits for categories of employees of the Corporation. He said that the resolution before the Board conforms the responsibilities of the Compensation Committee to the proposed Delegation of Authority from the Board of Directors to the Chairman. He said that, under the new Delegation of Authority, the Chairman would be empowered to act regarding staff benefit plans; accordingly, the proposed resolution for the Compensation Committee reflects its advisory role relative to the Chairman in this regard.

Mr. Wilkins, chairman of the Compensation Committee, inquired if the responsibilities of the Compensation Committee were limited to reviewing the recommendations of management. Mr. Lipkin replied that, in both the resolution currently before the Board and the resolution which was adopted by the Board in September 1982, the emphasis is on reviewing the recommendations of management. Mr. Wilkins stated that he had understood that the Compensation Committee was responsible to the Board of Directors. Mr. Lipkin stated that the Board has always had, and would continue to have, the power to give committees additional responsibility. He explained that, although certain responsibilities may not be enumerated in the initial charter of a committee, the responsibilities of a Committee can always be extended to such matters as the Board directs.

Chairman Noble stated that, as he understood the sense of the Board, the Board did not disagree with the recommendations of the staff, but that the Board wished to be given a fuller description of the proposed changes and a discussion of their impact upon the committees and the Board. The Board members concurred with Chairman Noble.

Mr. Lipkin stated that the next item for Board consideration concerned the delegation of all delegable authorities to the Chairman with the exception of those authorities related to approval of solicitation actions, financial assistance award decisions, and decisions concerning the Comprehensive Strategy.

Chairman Noble stated that he believed that the Board should delay action on this matter because the Board wishes to have more information made available to it. Mr. Lipkin stated that a summary of the powers delegated to the Chairman had been submitted to the Board. He said that, although the annex prepared for the Board describes general categories of retained and delegated powers, the staff would be happy to prepare a fuller and clearer description of these powers.

Mr. Bowden then inquired if the Board wished to defer action on the resolutions concerning amendment of the System of Organization and amendment of the By-Laws. Mr. Masson stated that he believed that action on these matters should be postponed because, as a result of the Board's discussions today, they were no longer in order. Mr. Lipkin stated that the By-Law amendments related only to officer descriptions and did not concern the Board committees. He said that the article of the By-laws relating to Board committees is not changed in the resolution before the Board. He stated that the resolution could be redrafted to make it even more specific so that it deals only with the officer descriptions. He stated that, in any event, the By-Law changes should be approved if the amendment of the System of Organization is approved so that the the two will be consistent.

Mr. Carter stated that he believed that there should be discussion of the officer job descriptions because he was aware of some directors' reservations in this regard. He said that this would be very time-consuming and, therefore, should be taken up in closed session. Mr. Bowden stated that approval of the System of Organization and the By-Laws is nondelegable and must be discussed in the forum of an open meeting. Chairman Noble noted that the officer descriptions were covered in the Board briefing on May 12. Mr. Bowden stated that, as he recalled, he had received no questions on these matters from Board members since the briefing.

Mr. Masson stated that he had been unable to attend the briefing and therefore he requested clarification as to why the changes in the officer descriptions were needed. Mr. Bowden stated that the changes in the System of Organization were called for because of the creation of the new position of Vice President-Corporate Affairs. He said that, in addition, some other adjustments had to be made in the descriptions of other officer positions in order to reflect the addition of the new position. He said that the establishment of the new position of Vice President-Corporate Affairs responds to the need for better external and internal communication, especially communication with the Executive Branch of the Federal Government. He said the changes in the System of Organization also permitted a redistribution of the workload among the Corporation's staff. He said that the current System of Organization does not allow for this redistribution and, therefore, must be amended. He added that a final reason for voting jointly on the amendment of the System of Organization and the amendment of the By-Laws is to conform the two documents.

Mr. Masson stated that, as he understood it, the two substantive changes being proposed at this time were the creation of the new position of Vice President-Corporate Affairs and the redefinition of the position of Vice President-Planning. Mr. Bowden replied in the affirmative, and added that, although the description of the Office of Planning is different from the current description, the description conforms to the present workload. He added that the establishment of the position of Vice President-Corporate Affairs does not create new work, it merely distributes existing work within the Corporation.

Mr. Masson inquired if the workload to which Mr. Bowden referred justified the creation of a new officer position. Mr. Bowden replied that he did not draw a major distinction between an officer position and a position of a key professional employee. He noted that several key professional employees are paid more than some of the officers of the Corporation. He explained that the new position was cast as an officer position because of external perceptions concerning the difference between an officer and a key professional employee. He said that, by giving these responsibilities to an officer, the Corporation would emphasize their importance.

Mr. Masson then asked if Mr. Bowden were totally comfortable with the creation of the new position and if he believed the position to be essential to the continued success of the Corporation. Mr. Bowden replied that he was very comfortable with the creation of the position and convinced of its need, but that the position was not absolutely necessary. Chairman Noble then stated that it was his understanding that the position would be of great help to Mr. Bowden and the improved operation of the Corporation. Mr. Bowden concurred.

On a motion duly made by Mr. Masson and seconded by Mr. Schroeder, by a vote of 4 to 0, Messrs. Carter, Wilkins and Monks abstaining, it was

> RESOLVED, that the System of Organization of the Corporation be, and it hereby is, amended and restated to read in its entirety as presented to this meeting; and further
>
> RESOLVED, that Article I, Section 1; Article II, Section 1, and Article IV of the By-laws of the Corporation be, and they hereby are, amended and restated to read in their entirety as presented to this meeting.

Report of the Compensation Committee

Mr. Wilkins stated that the Compensation Committee had considered several important items at its meeting the previous day. He said that the Committee was very pleased that its intentions were fully met with regard to recompetition on the Corporation's group medical insurance plan. He said that the Corporation had received a 60% rate increase on March 1, 1983 from its medical insurance carrier, Aetna Life & Casualty, because of general inflation and medical costs and a poor claims loss ratio. He noted that, at that time, the Compensation Committee had requested the Corporation to recompete the medical coverage and consider greater cost sharing between employees and the Corporation. He said that, of the bids submitted, a new bid by the current carrier, Aetna Life & Casualty, was clearly superior in all evaluated aspects. He said that the new plan retains the same benefits to the employees and also returns a savings to the Corporation.

Mr. Wilkins continued that the Compensation Committee had reviewed minor changes to the personnel policy concerning relocation reimbursement. He stated that the principal change concerned eligibility of employees, and stated that, with the changes, employees who voluntarily terminate employment with the Corporation within one year of the date of employment must repay the Corporation for relocation reimbursements unless the term of employment is agreed upon in advance to be less than one year.

Mr. Wilkins stated that the last item concerned the salary of the Chairman of the Board. He said that he believed that he spoke for all the members of the Compensation Committee in urging that Chairman Noble accept a salary.

Chairman Noble stated that for the past two years he had only accepted a dollar a year. He noted that the previous Chairman of the Board of Directors of the Corporation had received a salary of $175,000 a year. Chairman Noble stated that he believed that the authorization for the $175,000 should remain in effect, but that he would not take payments in excess of a U. S. Senator's salary. He said that he would apply this salary first to pay taxes on it, and give the balance to Oklahoma charities.

Mr. Wilkins stated that he believed that Chairman Noble's dedication was admirable. He noted that the Chairman had accepted only a dollar a year for the past two years. He stated that he and the Compensation Committee were grateful that Chairman Noble had reconsidered this matter.

Mr. Wilkins stated that, in addition to the matters which he had previously mentioned, the Compensation Committee also discussed hiring practices and the Corporation's policy regarding travel. He said that, although it had intended to do so, the Compensation Committee had been unable to conduct a review of officers' salaries.

Mr. Cox stated that a resolution may be in order concerning the medical plan and the relocation plan because, at the moment, the power to adopt benefit plans rests with the Board and has not been delegated to the Chairman.

Mr. Bowden questioned whether a resolution was necessary because the changes in benefit plans which the Compensation Committee had considered were minor and were in accordance with policies previously approved by the Board of Directors. Mr. Wilkins concurred that the Compensation Committee had not reviewed any changes which were inconsistent with guidelines previously issued by the Board of Directors. Mr. Cox then stated that, if the changes were not substantive, then no resolution would be called for.

Director's Financial Interests

Mr. Cox stated that the next item before the Board concerned a requirement in section 118(c) of the Energy Security Act which provides that a Director may not vote on any resolution affecting a matter before the Corporation in which, to his knowledge, he or his spouse has a financial interest. He noted that this prohibition does not apply if the interest is disclosed and the Board determines that the interest is too remote or too inconsequential to affect the integrity of the Director's service. [Said review is affixed to these minutes as Annex J.]

Mr. Cox stated that, as required by Corporation policy, Mr. Owen J. Malone, Senior Attorney and Ethics Officer, had reviewed the financial information made available by each member of the Board in light of matters to be considered during today's meeting of the Board of Directors. He stated that Mr. Malone's review showed that Mr. Monks has interests within the purview of the statute.

Mr. Cox concluded that in the opinion of Mr. Malone, the facts warrant a determination by the Board under section 118(c)(3) that these interests are too inconsequential to affect the integrity of Mr. Monks' votes on any matters involving the Northern Peat Energy and North Alabama Projects to be taken at the Board's May 26, 1983 meeting.

On a motion duly made by Mr. Carter and seconded by Mr. Schroeder by a vote of 5 to 0, Messrs. Wilkins and Monks abstaining, it was

> RESOLVED, that the Board of Directors by majority vote, hereby determines that the financial interests of Robert A.G. Monks, a member of the Board of Directors, in Wheelabrator Frye, Inc. and Houston Natural Gas Corporation disclosed at this meeting, are too inconsequential to affect the integrity of Mr. Monks' services for the Corporation in voting on any matters respecting the Northern Peat Energy Project and the North Alabama Project which may be acted on by the Board during this meeting.

Closing the Remaining Portion of the Meeting

Mr. Cox stated that the remaining items to be considered by the Board consisted of a discussion of exempt minutes of closed portions of prior meetings of the Board of Directors, draft coal solicitations, project maturity and strength reviews, and projects under negotiation. He said that, in accordance with section 116(f)(1) of the Energy Security Act and the Corporation's policy on public access to Board meetings, the Board in open session must resolve to close the remaining portion of the meeting. Mr. Cox also said that, in accordance with the policy, Mr. Malone, Senior Attorney, had rendered his certification that the Board's deliberations on the matters to be discussed during the closed portion may be properly closed to public observation.

On a motion duly made and seconded, by a vote of 5 to 0, Messrs. Wilkins and Monks abstaining, it was

> RESOLVED, that the remaining portion of this meeting consisting of agenda items VIII through XI be, and it hereby is, closed to public observation, it having been determined by the Board of Directors in open session that discussion in open session of exempt minutes of closed portions of prior meetings of the Board of Directors (Item VIII), draft coal solicitations (Item IX), project maturity and strength reviews (Item X) and projects under negotiation (Item XI) is likely to disclose confidential commercial or financial information and matters the premature disclosure of which would be likely to impede the Corporation's ability to negotiate financial assistance agreements, which matters may properly be considered in closed session pursuant to section 116(f)(1) of the Energy Security Act.

[The meeting was recessed at 11:00 a.m.]

Annex Last

MINUTES OF THE CLOSED PORTION OF THE MEETING MADE AVAILABLE TO THE PUBLIC PURSUANT TO RESOLUTION OF THE BOARD

That portion of the May 26, 1983 meeting of the Board of Directors of the United States Synthetic Fuels Corporation, closed pursuant to a motion duly made, seconded and unanimously adopted in open session, was called to order at 12:55 p.m. by Chairman Edward E. Noble in the Board Room, Williams Plaza Hotel, Tulsa, Oklahoma. In addition to the Chairman, the following members of the Board of Directors of the Corporation, comprising a quorum of the Board, were present:

John B. Carter, Jr.
Milton M. Masson, Jr.
Robert A. G. Monks
Victor A. Schroeder
Victor M. Thompson, Jr.
C. Howard Wilkins, Jr.

Mr. Robert Gambino, Deputy Inspector General of the Corporation, was also present.

Edward E. Noble acted as Secretary for the first portion of the closed session.

The Chairman suggested that, in light of concerns raised by several directors, the organization of the Synthetic Fuels Corporation and any other matters troubling Board members should be discussed frankly before proceeding to the balance of the scheduled session. Comments expressed by the Directors were candid and made with some urgency. Mr. Wilkins expressed his concern that talent and expertise in the Corporation arebeing misused. He noted that the organizational plan of the Corporation does not reflect the true division of authority and urged the Chairman to address that problem. Mr. Wilkins stated that the priorities of the Corporation are changing and the Chairman and Executive Vice President need additional help to cope effectively with the challenges these new priorities will thrust upon the Corporation.

Mr. Wilkins then suggested a possible solution would be to have the President move up to the position of Vice Chairman, give the Executive Vice President additional authority and strengthen the Executive Vice President by adding additional personnel to the Executive Vice President's staff. The Chairman demurred to this suggestion and stated that the changes outlined by Mr. Wilkins appeared to be cosmetic and not substantive. Mr. Wilkins stated that there was confusion, because of lack of good organization, which his suggestion would help eliminate. Mr. Schroeder advised that he did not believe employees of the Corporation were confused about the lines of authority in the Corporation. He stated that, on the contrary, the lines of authority were well understood and that there was not confusion among subordinates. Mr. Schroeder stated that, as President, he has delegated day-to-day operations to the Executive Vice President, and that he has no special or direct reporting procedures which violate this delegation. He has discussed this with the Executive Vice President many times and there is no misunderstanding between them.

There was much intense discussion of the Corporation's organizational needs, problems, and possible solutions. Mr. Monks offered to resign if the Chairman believed it would help the Chairman and the Board reach a solution. The Chairman rejected the offer and noted the many contributions made by Mr. Monks and the value of his ideas and suggestions.

Mr. Carter then suggested that the Board resolve that Mr. Schroeder assume the title and functions of Vice Chairman and retain the title of President; that Mr. Bowden function as the Chief Operating Officer and keep the title of Executive Vice President; and further, that these changes be effective for 90 days, after which they will be reevaluated.

Mr. Carter agreed that the Chairman's office needs help, and Mr. Schroeder could be of great assistance to the Chairman. The Chairman agreed, adding that the Corporation was moving into what was probably its most intensive phase, in which it would be simultaneously consummating assistance agreements for a number of large projects and setting up the monitoring staff to manage assisted projects. Mr. Wilkins pointed out that nearly every major corporation has the position of vice chairman and that the position could be helpful to the Chairman during this upcoming intense phase of the Corporation's life. According to Mr. Carter, under the proposed resolution, Mr. Schroeder could step down into the line of command anytime if that were necessary. He said that Mr. Bowden would be acting as chief operating officer but still be designated the Executive Vice President. Mr. Thompson spoke in favor of the proposed resolution, pointing out the temporary nature of the changes and the opportunity to evaluate them and make corrections if necessary in 90 days. He noted that these changes were in the nature of a compromise and urged acceptance by the Board.

On a motion duly made by Mr. Carter and seconded by Mr. Thompson, it was unanimously

> RESOLVED, that Mr. Schroeder assume the title and functions of Vice Chairman and retain the title of President; and further
>
> RESOLVED, that Mr. Bowden will function as the Chief Operating Officer and keep the title of Executive Vice President; and further
>
> RESOLVED, that these changes will be effective for 90 days, after which they will be reevaluated.

After the vote, Mr. Wilkins stated he would resolve any disagreement with management within the organizational framework of the Corporation. He noted, however, that he would go "outside" if there was a lack of response. He emphasized with some vigor that he wants and needs responses to his questions and views disagreement with his positions as no excuse for lack of response.

The Chairman then wound up the discussion by asking the Board for their help and cooperation. He alerted the Board to the many challenges and problems facing the Corporation and expressed confidence and optimism aoout meeting these challenges with the assistance of each Board member.

[The following officers and employees of the Corporation joined the meeting:

Jimmie R. Bowden, Executive Vice President
Edward F. Cox, Vice President and General Counsel and Secretary
Dwight A. Ink, Vice President-Administration and Treasurer
S. Kenric Lessey, Jr., Inspector General
Andrew P. Tashman, Assistant General Counsel
Donald Thibeau, Executive Assistant to the Chairman
Betty Nolan, Senior Policy Advisor
Dorothy Weed, Director-Secretariat
Catherine McMillan, Director-Public Disclosure
Judith Fox, Legal Assistant]

Edward F. Cox acted as Secretary for the remainder of the meeting.

Consideration of Request for Exempt Minutes of Board Meetings

Catherine McMillan stated that on October 4, 1983, the Office of Public Disclosure received a request from Robert Porterfield of the Newsday newspaper for access to copies of the complete minutes of all portions of the Board of Directors meetings which had been closed to public observation from August 1, 1981 through March 24, 1983. She noted that section 121 of the Energy Security Act requires the

Corporation, upon receipt of any request for information, to determine whether to comply with such requests and to notify promptly the person making the request of such determination. She stated that section 116(f) of the Act provides for the Board of Directors to determine which portions of the minutes of the meetings closed to public observation should be withheld from public disclosure. She said that the material requested by Mr. Porterfield was withheld from public disclosure by resolution of the Board. She explained that any supplemental release of information from the requested minutes is also a nondelegable Board function pursuant to section 119(a) of the Act.Therefore, she said, it is necessary for the Board to make a determination regarding Mr. Porterfield's request. [Description of Present Withholdings and Recommendations for Release, is affixed to these minutes as Annex K.]

Ms. McMillan stated that she had reviewed the minutes responsive to Mr. Porterfield's request, had checked public sources and had contacted persons knowledgeable about each project and familiar with the Corporation's active negotiations and solicitation process. She reported that, on the basis of her review, a report outlining recommendations for the Board's consideration had been prepared and transmitted to each member of the Board, accompanied by a complete text of the requested documents, marked to correspond with her recommendations. Ms. McMillan noted that most of the passages which are now recommended for release are so recommended because the passage of time has removed the sensitivity of the materials in terms of either business confidentiality or the status of negotiations in progress.

On a motion duly made by Mr. Monks and seconded by Mr. Schroeder, it was unanimously

> RESOLVED, that the recommendations of the Director of Public Disclosure contained in the Director's report, entitled "Description of Present Withholdings and Recommendations for Release," presented to this meeting for release of minutes previously withheld from the public for those portions of Board meetings closed to public observation from August 1, 1981 through March 24, 1983 be, and they hereby are, approved.

Mr. Monks then complimented Ms. McMillan on the excellent work which she had done. He asked how long it had taken to review the materials. Ms. McMillan replied that she and her staff had spent well over 300 hours on the project.

Mr. Carter asked if it would be possible to pass on this considerable expense to Mr. Porterfield. Ms. McMillan replied that the Corporation cannot charge for the staff work involved, although it can charge for the cost of reproducing the materials.

[Mr. Ink, Mr. Tashman and Ms. McMillan left the meeting. The following officers and employees of the Corporation joined the meeting:

Charles A. Cowan, Jr., Senior Vice President-Projects
Leonard Axelrod, Vice President-Technology and Engineering
Ralph L. Bayrer, Vice President-Projects
Edward S. Miller, Vice President-Finance
William Rhatican, Vice President-External Relations
Jeffrey A. Lipkin, Deputy General Counsel]

Third Solicitation Maturity Reviews

Mr. Bayrer stated that the first projects-related item for Board consideration concerned maturity reviews for three projects in the Third Solicitation: Hampshire, Breckinridge, and North Alabama. [Maturity Reviews for the Hampshire, Breckinridge and North Alabama projects are affixed as Annexes L, M, and N, respectively.]

He stated that the staff recommended that the Hampshire project should not pass the Maturity Review because of its lack of equity sponsorship. Furthermore, he said that the project, as currently constituted, represents a [

]

Mr. Bayrer reported that the Breckinridge project, under Bechtel sponsorship, was resubmitted in the Third Solicitation on the basis of process modifications [

] thereby improving economic performance and making the project more attractive to potential sponsors. He said that a preliminary view of changes made on the project indicates that they are reasonable, but they have not been examined in detail. He noted that, overall, the current project represents a [ ] Mr. Bayrer recalled that the Maturity Review of the Breckinridge project had previously been delayed because of possible sponsors' commitments. He stated that there is [

]

Mr. Schroeder inquired as to the possibility that [

] would join the Breckinridge project. Mr. Bayrer replied that the staff has [

] regarding the Breckinridge project, and that [

]

Mr. Schroeder then inquired if there were any reason to give Breckinridge a 30 day delay as it had requested. Mr. Bowden stated that 30 days for this project would be an insufficient amount of time. Messrs. Bowden and Axelrod stressed that the Breckinridge project would [ ]

Chairman Noble asked if this information could be conveyed to the Breckinridge project. He inquired, in addition, what the Corporation would lose by giving Breckinridge a 30 day deferral. Mr. Bowden replied that the Corporation would be losing valuable staff time and that he saw no benefits from a deferral on this matter.

Mr. Schroeder asked Mr. Bowden if Mr. Bowden's trip tomorrow would yield useful information in this regard. Mr. Bowden said that he anticipated that no information of substance would be presented.

Chairman Noble asked what the effect would be on the Breckinridge project if it failed the Maturity Review. Mr. Bowden replied that he did not think there would be any substantive effect. He said that he did not think that it should be the policy of the Corporation to string projects along because such a course of action wastes a great amount of staff time. He concluded that he was of the same opinion today as he was at the meeting in New York City on March 24. Mr. Bowden recalled that at the March 24 meeting, a specific question lay before Breckinridge and the Corporation concerning [

] He said that now it is evident that [

] He said that all the new information which has developed since the March 24 meeting is negative.

Mr. Bayrer then reported on the status of the North Alabama project. He said that North Alabama has met all its maturity milestones, although its equity problem remains, and that it should pass the Maturity Review.

On a motion duly made by Mr. Monks and seconded by Mr. Thompson it was unanimously

> RESOLVED, that the North Alabama project be, and it hereby is, advanced to the Phase I Strength Review under the Third Solicitation, subject to the respective conditions, if any, presented to this meeting for said project; and further
>
> RESOLVED, that the Hampshire and Breckenridge projects not be advanced to the Phase I Strength Review under the Third Solicitation and not be considered further under that solicitation.

Third Solicitation Project Strength Reviews

Mr. Bayrer stated that he would first report on the Third Solicitation projects which were recommended for failure in the Strength Review. He said that these projects included: Scrubgrass, New England Energy Park, KILnGAS, Cottonwood Wash, and Enpex-Syntaro. [Strength Reviews for the aforementioned projects are affixed to these minutes as Annexes O, P, Q, R, and S, respectively .]

Mr. Bayrer reported that the Scrubgrass project's major problems concerned its [.] He said that, because of the [.] He said that requested information to make a more definitive determination as to [ ] by the sponsors has not been provided, but that the intention of the sponsors to [.]

Mr. Monks suggested that, because of considerable outside interest in the Scrubgrass project, it is important that the Corporation's communications regarding the project stress that there is a legal prohibition in section 131(o) of the Act against the types of financial arrangements which the Scrubgrass project proposes. Mr. Schroeder also noted that the Corporation had received many calls on this project.

Mr. Wilkins asked for information concerning section 131(o) of the Act. Mr. Monks responded that section 131(o) provides that, "Whenever the Corporation, by one or more actions, awards a combination of two or more forms of financial assistance for a single synthetic fuel project, the Corporation shall insure that the recipient of such financial assistance shall bear a reasonable degree of risk in the construction and operation of such project; provided, however, that any person that is solely in the position of a lender shall not be required to bear such risk. The Corporation shall not award more than a single form of financial assistance under this part unless the Board of Directors determines that multiple forms of financial assistance are required for the viability of the project, and further, that the project is necessary to achieve the purposes of this title and the provisions of this part." Mr. Monks concluded that for the Scrubgrass project,

[.]

Mr. Masson then requested that the staff prepare a written explanation as to why the Scrubgrass project was recommended for failure in the Strength Review.

Mr. Cox stated that [ ]

Mr. Wilkins then inquired what the Corporation was doing to encourage sponsors to support other projects when the projects which they had been supporting failed the solicitation. Mr. Bowden replied that several sponsors have shifted sponsorship to other projects and he gave [ ] as an example. He noted that [ ]

Mr. Bayrer then reported on the status of the New England Energy Park project. Mr. Bayrer stated that New England Energy Park [

] He noted that the project includes weaknesses in design, marketing, and environmental permitting; therefore, the staff recommends that the project fail the Strength Review.

Mr. Schroeder observed that the New England Energy Park project had also been the subject of much outside interest.

Mr. Bayrer then reported on the status of the KILnGAS project. Mr. Bayrer reported that the major weakness of the KILNGAS project is [

]

[

]

In addition, Mr. Bayrer commented that there exists a [

] He

reported that the sponsor has stated that [

]

Mr. Schroeder then commented that several letters had been received on behalf of the KILnGAS project which requested that the Chairman should visit the KILnGAS project before a decision regarding the Strength Review is made. He said that the staff recommended that the Chairman should not visit the facility prior to the Strength Review. Mr. Thompson stated that he had also received a telephone call in this regard.

Mr. Bowden commented that one facility proposed for the KILnGAS project is already built and the other proposed facility is clearly immature. Therefore, the KILnGAS project is not eligible for Corporation assistance.

Mr. Masson stated that Mr. Bowden's point was well taken and that, in the Corporation's dealings with Allis-Chalmers and the public, this explanation should be made very clear and explicit.

Mr. Bowden added that, in addition, the KILnGAS project has the [ ] and also [ ]

Chairman Noble stated that the Corporation should follow Mr. Monks' suggestion and stress the statutory limitations which make KILnGAS ineligible for financial assistance. Chairman Noble added that perhaps the Corporation in its letter and debriefing should hold out some hope to the project for the future. Mr. Bowden remarked that he did not think that there was any possibility that the KILnGAS project would receive assistance from the Corporation. Mr. Bowden stated that, in debriefings, the Corporation's staff provides highly detailed explanations to projects. Chairman Noble stated that he did not want to limit the explanation simply to the debriefing. Mr. Rhatican said that, in the past, the Corporation has been very careful not to announce the specific reasoning behind passage or failure of a particular project. He said that, if the Board so directed, this policy could be changed. Mr. Bayrer suggested that perhaps one sentence could be added to the press release referring to KILnGAS's [ ] problems.

Mr. Rhatican noted that the present policy concerning the announcement of specific reasons behind Corporation project actions was established when the Corporation contemplated numerous general solicitations in which a project could reapply. He said that, with a shift toward targeted solicitations, this is no longer a problem.

Chairman Noble then requested that brief explanations concerning the Board's reasoning behind the passage or failure of a project should be prepared for the Board.

Mr. Bayrer then reported on the status of the Cottonwood Wash project. Mr. Bayrer reported that the Cottonwood Wash project still [

] Mr. Bayrer added that, in addition to the above-mentioned deficiencies, [

]

Mr. Masson asked if the staff had had an opportunity to evaluate the engineering technology [.] Mr. Axelrod replied in the negative and stated that this information was only received on Tuesday, May 24.

Mr. Masson stated that western shale is an extremely important resource area. He stated that he was not in disagreement with the staff recommendation, but that he wanted to stress that if there were any reason to think that the *Cottonwood Wash* project might come to fruition, then perhaps the Board should defer a decision on the project at this time. Mr. Bowden replied that the Corporation constantly receives letters from projects requesting additional time such as the *Cottonwood Wash* project had requested. He said that 99% of the time the matters raised by the projects in such letters come to nothing.

Chairman Noble noted that the *Cottonwood Wash* product was the same as *Paraho's*. Mr. Bowden stated that this would depend [ ] Mr. Bayrer said that the project [ ] Mr. Bowden stated that [ ]

Mr. Thompson commented that Bob Hall of the Magic Circle Company had called him the day before and had said that the design would be ready by August 15, 1983.

Mr. Bowden noted that the *Cottonwood Wash* project failed [ ] Mr. Masson commented that it looked as if the project had [ ] Mr. Bowden replied that the principal [ ]

Mr. Bayrer then reported on the status of the Enpex-Syntaro project. Mr. Bayrer reported that the Enpex-Syntaro project has changed several times since it was first proposed under the Second Solicitation. He said that under the present configuration, the Enpex-Syntaro project is to produce [ ] from the San Miguel tar sands in Maverick County, Texas. He said that the San Miguel resource contains two to three billion barrels of bitumen which have not been exploited heretofore. He reported that the project is [ ] He said that the price guarantee request is [ ] He said that the assistance requested, and projected Corporation outlays, amount to [ ] He added that, in addition, the sponsors have not provided a timetable for obtaining letters of interest from prospective purchasers of the product, and [ ] He said that, in addition, the project management has limited experience [ ] He said that, therefore, the staff recommends that the project be eliminated from further consideration under the Third Solicitation for lack of financial, marketing, and management strength.

Mr. Schroeder noted that a good deal of outside interest expressed concerning the Enpex-Syntaro project.

Mr. Bayrer stated that, although the Kentucky Tar Sands project had been recommended for failure in the project book submitted to the Board of Directors, significant new information has been submitted, but not analyzed, and therefore the staff recommends deferral on a decision at this time.

On a motion duly made by Mr. Carter and seconded by Mr. Schroeder, it was unanimously

> RESOLVED, that the Cottonwood Wash, Enpex-Syntaro, KILnGAS, New England Energy Park and Scrubgrass projects not be advanced to Phase II under the Third Solicitation and not be considered further under that Solicitation.

Mr. Bayrer then proceeded to report on the projects which the staff had recommended for passage to Phase II of the Third Solicitation. He stated that these projects include Keystone, North Alabama, World Energy, Northern Peat, Paraho-Ute, Sunnyside, Forest Hill, and Chaparrosa. [Strength reviews for the aforementioned projects are affixed to these minutes as Annexes T, U, V, W, X and Z, respectively.]

Mr. Bayrer then reported on the status of the Keystone project. Mr. Bayrer reported that, since advancement into the Strength Review, the Keystone project has changed its primary product from methanol to fuel gas. He reported that the Keystone project will now produce 38 billion Btu's of fuel gas for sale to [

] He reported that the other major development in this project since the Maturity Review was a change in sponsorship. He stated that [

] Mr. Bayrer stated that the principal strengths of the project are the management of engineering and construction; technology and engineering; availability of water, feedstock and utilities; financial viability; sponsorship; and the environmental and socioeconomic areas. He noted that the principal weaknesses concern the uncertainties about demand and future pricing for fuel gas.

Mr. Bayrer concluded that the project meets most of the Strength criteria and is recommended for advancement to Phase II under the Third Solicitation with the following condition: [

]

Mr. Masson observed that Keystone's coal to medium Btu fuel gas project combined-cycle was a strong project type. Mr. Bowden concurred and explained its advantages. He said that the project is very attractive [

]

Chairman Noble then inquired as to its cost per barrel and stated that this was a valuable yardstick. Mr. Bowden agreed but said that it is important to look at the quality of the energy produced. Mr. Bayrer commented that in negotiation, [

]

Mr. Bayrer then reported on the status of the North Alabama project. Mr. Bayrer said that North Alabama's problems are [

] he noted that the [

] He noted that its principal strengths derived from its demonstrated commercial technical base, advanced level of design, strong initial management capability, refined and well-developed cost estimate, economic viability and advanced permitting status.

He concluded that the staff recommends that the North Alabama project should be advanced to Phase II under the Third Solicitation conditioned upon compliance by the sponsors by August 15, 1983 with the following conditions: [

]

Mr. Bayrer then reported on the status of the World Energy project. Mr. Bayrer reported that the World Energy project will produce a medium Btu gas generated by underground coal gasification. He reported that discussions have been held with several utilities who have expressed interest in buying the power. He reported that the principal strengths of the project are its replication potential, the experience of sponsors with the underground coal gasification, and its potential financial viability with Corporation assistance. He reported that the major weaknesses of the project are [

]

He said that the project is recommended for advancement to Phase II under the Third Solicitation contingent upon satisfying the following conditions by August 15, 1983:

[

Mr. Monks then inquired if the World Energy project had passed the Corporation's eligibility requirements. Mr. Cox replied in the affirmative. Mr. Monks asked how the project had passed the eligibility requirements since it doesn't replace either oil or gas, but coal. Mr. Cox said that the final product can replace oil or gas. Mr. Bayrer added that the gas is produced from coal. Mr. Lipkin commented that the key consideration in the statute is whether the product "can" be used as a substitute for petroleum or natural gas.

Mr. Bayrer then reported on the status of the Northern Peat project. Mr. Bayrer reported that the Northern Peat project is proposing to build a commercial facility in central Maine for the production of peat derived fuel that will be the first in the United States. He said that they plan to use a conversion process that was recently developed in Finland for the upgrading of the peat. He noted that the State of Maine has been chosen as the site for the first plant because of the anticipated market for the peat-derived fuel in the absence of competing local fuel resources. He reported that the sponsor has excellent experience with bringing novel technologies through the first commercial plant phase as exemplified by its recent experience with municipal refuse energy facilities. He said that all the technologies involved--with the possible exception of waste water treatment--have been studied at both laboratory and pilot plant scale and are ready for commercialization. He noted that the project has full equity commitment from a sponsor with a strong technical capability.

Mr. Bayrer reported that the major weakness of the project concerns environmental issues. He said that the sponsor is awaiting a final determination from the U.S. Army Corps of Engineers as to whether an environmental impact statement will be required for the project. He said that a decision from the Corps is expected in June, 1983. He explained that, should the Corps' authority be triggered, it is expected that the requirement for an environmental impact statement would have only a slight impact upon the project's proposed construction schedule.

Chairman Noble asked for information concerning the familiarity of the staff with the *Northern Peat* project technology. Mr. Axelrod replied that he had sent staff to look at the pilot plant in Finland. Mr. Monks added that the project sponsors were very keen on the project.

Mr. Bayrer stated that the staff had found that the *Northern Peat Energy* project meets Third Solicitation criteria and should pass the Strength Review subject to the conditions that environmental impact statement requirements for the project be fully resolved; and further,
[ ]

Mr. Cowan observed that the *Northern Peat* project had a very good attitude.

Mr. Bayrer then reported on the status of the Paraho-Ute project. Mr. Bayrer reported that the Paraho-Ute project was submitted under the first, second and third solicitations. He said that the project will use conventional room and pillar mining and surface retorting to produce shale oil in Utah. He said that a group of four substantial sponsors [

]

Mr. Bayrer said that the Paraho process has been well tested at semi-works scale. He said that a Level III design has already been developed for the retort and its related facilities under a joint industry/DOE cooperative agreement. He said that the Corporation now has evidence that major energy company sponsors took an active role in developing the Paraho process and the present design. He commented that Paraho is [

] He continued that project economics have improved substantially as a result of the project redesign. He noted that [ ] He noted that the Paraho project has a good beginning on all required permits.

Mr. Bayrer said that the project's major weaknesses since its initial application have been [

] He said that Paraho recently informed the Corporation that UOP upgrading technology had been selected. He noted that the UOP design is Level I. Mr. Bayrer continued that, with the [

] efforts are proceeding to eliminate project deficiencies. He said that Paraho continues to request [

] He concluded that because [

] Paraho has not yet been able to provide many of the key project documents required for Corporation evaluation.

Mr. Bayrer then stated that Paraho-Ute meets most of the strength criteria and is recommended for advancement to Phase II under the Third Solicitation with the following conditions:

[

Mr. Masson then asked Mr. Cowan to compare the Paraho project to Cottonwood Wash. Mr. Cowan replied that Paraho has [ ] Chairman Noble stated that the key difficulty he saw in failing the Cottonwood Wash project was that it [ ] from the Paraho project. Mr. Bowden stated that although the staff had reviewed this question, the staff decided that it was only a minor consideration. (Mr. Miller left the meeting.)

Mr. Bayrer then reported on the status of the Sunnyside project. He stated that the principal strengths of the project are the financial and management capabilities of its major sponsor, Chevron Resources, and the project's programmatic value. He said that the project appears to be [ ] He said that [ ] He noted that the sponsor group is complete and that Chevron is [ ]

Mr. Bayrer reported that programmatically, the Sunnyside project is the only project before the Corporation that would develop Utah's tar sands resources. He noted that of the 25-35 billion barrels of tar sands in the United States, approximately 90% are located in Utah. He said that the technology employed in the Sunnyside project would be applicable, to varying degrees, to the development of all the Utah deposits.

He noted that the major weakness of the project is its [ ] He noted that most shortcomings will be solved by [ ] He added that a second weakness of the project was that its [ ]

Mr. Bayrer stated that the project meets most of the Strength criteria and is recommended for advancement to Phase II under the Third Solicitation with the following conditions:

[ ]

Mr. Cowan observed that Sunnyside's attitude is good. Mr. Wilkins then inquired as to [

]

Mr. Bayrer then reported on the status of the Forest Hill project. Mr. Bayrer reported that the Forest Hill project is a heavy oil project located in a field whose oil cannot be recovered through conventional techniques. He noted that operation of the commercial scale field test for two years mitigates many of the technical cost and management risks inherent in most projects using new technologies. He said that the commercial size of the test module also reduces the scale-up risk which normally exists. Mr. Bayrer reported that the major weaknesses of the project center around [ ] He said that, as proposed, there is [

] Moreover, he noted, because the

[

] However, he added, the analysis

indicates that the project is [

] Mr. Bayrer concluded that the staff recommended that the Forest Hill project be advanced to Phase II with the following conditions:

[

]

Mr. Monks then inquired as to the eligibility of the Forest Hill project. Mr. Cox replied that the Office of General Counsel is comfortable with the Forest Hill project's eligibility, although it has not yet signed off on it. Mr. Lipkin added that the issues presented by the Forest Hill project are significantly different from those of Calsyn, which was an upgrading rather than extraction project, and was not limited to a single specific field. Mr. Lipkin added that the remaining eligibility issues concern different types of risk. (Mr. Miller returned to the meeting. Messrs. Bowden and Wilkins left the meeting.)

Mr. Bayrer then reported on the status of the Chaparrosa project. Mr. Bayrer reported that the Chaparrosa project, like the Enpex-Syntaro project, will produce bitumen from the San Miguel tar sands in Zavala County, Texas. He noted however that the strengths of the project distinguish it from Enpex-Syntaro. He said that the principal strengths of the project are three-fold. First, he said that the technology has been proven in two separate pilot tests conducted by Conoco in the same formation. Second, he said that the Chaparrosa management has done a good job in developing the project so far. He said that Conoco has indicated it will serve as a project operator, thereby completing a strong management team for this type of project. Finally, he noted that the San Miguel resource contains two to three billion barrels of bitumen which have not been exploited heretofore and, therefore, the project has strong replication potential.

Mr. Bayrer reported that the major weakness of the project is the [

] He said that [

] He noted that the project is [

]

Mr. Bayrer concluded that the project satisfies all of the strength criteria [ ] He noted that the project is [

] He stated that some of the uncertainties may be resolved shortly in several important areas. Therefore, he said, the staff evaluation concludes that the project meets most of the strength criteria and is recommended for advancement to Phase II under the Third Solicitation with the following conditions:

[

]

(Mr. Wilkins returned to the meeting.)

Mr. Monks asked if the staff felt strongly about its recommendation concerning the Chaparrosa project. Mr. Bayrer replied that staff feels that the project is strong [ ] Chairman Noble inquired how much the project would cost in terms of dollars per unit cost. Mr. Monks commented that the project seemed [ ] Mr. Bayrer concurred, but he added that the Corporation [ ] (Mr. Thibeau left the meeting. Mr. Gambino left and returned to the meeting.)

On a motion duly made by Mr. Monks and seconded by Mr. Schroeder, by a vote of 6 to 0, it was

> RESOLVED, that the Keystone, North Alabama, World Energy, Northern Peat Energy, Paraho-Ute, Sunnyside, Forest Hill and Chaparrosa projects be, and they hereby are, advanced to Phase II under the Third Solicitation, subject to the respective conditions, if any, presented to this meeting for said projects.

Projects in Negotiation

Mr. Cowan reported that the Term Sheet for the Calsyn project had been signed the previous day. He stated that documentation will start immediately and that [ ] Mr. Cowan also reported that [ ]

(Mr. Bowden returned to the meeting. Messrs. Bayrer, Thibeau, Rhatican and Cowan left the meeting. Mr. Richard Shanklin, Project Officer, and Ms.

Jeanine Matte, Senior Attorney, joined the meeting. Mr. Rhatican returned to the meeting.)

Consideration of Coal Solicitations

Mr. Shanklin stated that, at its March 24, 1983 meeting, the Board of Directors had authorized the drafting of three competitive solicitations for projects involving gasification of the following coals: bituminous coals from the Eastern Province, bituminous coals from the Eastern Region of the Interior Province, and subbituminous coals from the Western Province. He said that the staff had drafted competitive solicitations for these three types of projects and has also prepared a draft solicitation for the two types of bituminous coal combined. He said that the combination solicitation developed as a result of suggestions from industry. [Draft Competitive Solicitation for Eastern Province Bituminous Coal Gasification Projects is affixed to these minutes as Annex Y. Draft Competitive Solicitation for Eastern Region of the Interior Province Bituminous Coal Gasification Projects is affixed to these minutes as Annex Z. Draft Competitive Solicitation for Western Subbituminous Coal Gasification Projects is affixed to these minutes as Annex AA. Draft Competitive Solicitation for Eastern Province and Eastern Region of the Interior Province Bituminous Coal Gasification Projects is affixed to these minutes as Annex BB.] (Mr. Wilkins left the meeting.)

Mr. Shanklin stated that the basic features of the Competitive Gulf Province Lignite Solicitation have been retained for the four coal solicitations. He noted that the major differences from the features of the Lignite Solicitation are: addition of gasoline as an eligible product and provision for review and modification of the market price indices as may be warranted by changing circumstances in the market place.

Mr. Monks asked what the Corporation would lose if it took the combined approach. Mr. Bowden replied that [

] He noted that

[

] Mr. Bowden added, however, that this might not be a problem because [

] Mr. Shanklin added that the staff recommends that the 10,000 barrel per day scale be retained. (Messrs. Wilkins, Thibeau and Cowan returned to the meeting.)

Mr. Monks then asked what feedback the Corporation had received from potential lignite projects. Mr. Bowden remarked that a general comment which the staff had received from industry was [

] Mr. Monks inquired if the Office of Planning had been involved in the preparation of the solicitations and Mr. Shanklin replied in the affirmative.

Mr. Shanklin then directed the attention of the Board to page three of the solicitations which contains the summary of solicitation/selection processing schedule. He suggested that the schedule for the new solicitations follow the schedule established for the Lignite Solicitation. He said that the overall selection process would take about a year.

Chairman Noble inquired [
] Mr. Bowden replied that [

] He stated that [ ]
[

]

Mr. Monks observed that [
] Chairman Noble commented that [

] Mr. Cox then stated that [

]

Chairman Noble then asked, [

] Mr. Cox replied [

] Mr. Cox added that [

]

Mr. Shanklin stated that he wished to point out several other features of the solicitation. He said that staff recommended that the Reservation Bid should be $1.9 billion for all four coal solicitations. (Mr. Wilkins left and returned to the meeting; Mr. Bayrer returned to the meeting. Mr. Bayrer returned to the meeting and Ms. Matte left the meeting.)

Mr. Monks inquired where the staff had provided for financial capacity statements. Mr. Shanklin replied that this could be found in the last item of Appendix C on page 43. (Mr. Rhatican returned to the meeting.)

Mr. Shanklin then explained how the staff would determine the market price for section C.1.4. He said that the staff recommended that for a medium Btu gas, the market price should be set at 60% Refiners Acquisition Cost. He said that for a high Btu gas, the staff recommends 70% Refiners Acquisition Cost; and it recommended 165% of Refiners Acquisition Cost for methanol. He stated that the staff recommended a market price for gasoline to be set at a national weighted average wholesale price ($BBL/COE) for gasoline, average of motor grades, as published by DOE and EIA. He noted that for medium Btu gas, high Btu gas, and Methanol, the staff recommendations for market prices are the same as for the Gulf Province Solicitation.

Mr. Shanklin stated that, with respect to Section C.1.5, Price Guarantee Amounts, the staff recommends that the cut-off date for Price Guarantees should be eight years.

Mr. Shanklin concluded that the staff recommends that all four of the solicitations should be sent to the Advisory Committee for review and the combined solicitation should be singled out for particular emphasis. Chairman Noble inquired as to the reasoning of the staff recommendation. Mr. Shanklin replied that the staff recommends the combined solicitation because the total number of projects is small and it is felt that the Corporation would obtain a more meaningful competition if the two solicitations were combined. He noted that the Corporation might have difficulty verifying that it had conducted a meaningful competition with only the single solicitations.

Mr. Bowden then stated that the Board has two options: first, it could submit all four solicitations to the Advisory Committee with no indication as to the Corporation's preference; or second, it could select one solicitation now for emphasis and send all four of the solicitations to the

Advisory Committee. He stated that he recommended the second course of action, and that the combined bituminous coals solicitation be singled out for earliest issuance. He noted that [

] He said that the Corporation would know [

]

On a motion duly made by Mr. Monks and seconded by Mr. Schroeder, by a vote of 6 to 0, it was

> RESOLVED, that the United States Synthetic Fuels Corporation Competitive Solicitations for Eastern Province Bituminous Coal Gasifications Projects, Eastern Region of the Interior Province Bituminous Coal Gasification Projects, Western Subbituminous Coal Gasification Projects, and Eastern Province and Eastern Region of the Interior Province Bituminous Coal Gasifications Projects presented to this meeting, with such additions and modifications as approved at this meeting, be, and they hereby are, tentatively approved and that the Chairman be, and he hereby is, authorized and directed to transmit them to the Corporation's Advisory Committee for review and to make copies of them publicly available through the Corporation's Public Reading Room.

Mr. Bowden then asked for the Board's opinion concerning the new project summary format in project briefing books. Mr. Monks replied that he very much liked the new format and that it was very informative. He noted that with regard to the project descriptions of the Kensyntar project, there was a slight discrepancy between the summary and the full description of the project.

Mr. Bowden then stated that he had one other small item to raise for Board consideration. He said that the staff had been considering preparing a lecture series for the members of the Board of Directors in conjunction with their regularly scheduled meeting. He asked whether the Board members would be interested in hearing a well-known outside speaker on topics of interest to members of the Board, such as the comprehensive strategy. He said that such lectures might be given within the framework of a dinner to be held the night before a Board meeting. The Board members concurred that this was a good idea and that it should be pursued.

(All officers and employees of the Corporation left the meeting except for Mr. Bowden, Mr. Cox, Mr. Lessey, Mr. Miller, Mr, Gambino, and Ms. Fox.)

Great Plains Coal Gasification Project

Mr. Schroeder stated that Mr. Miller had done preliminary work concerning evaluation of the Great Plains Coal Gasification project. Mr. Miller stated that he and his staff had prepared an analysis of the possibility of abandonment for the Great Plains project based on an evaluation of possible future oil prices and the ability of sponsors to use future tax benefits. Mr. Miller anticipated that the sponsors would
[

] He said that his staff's evaluation showed [

] He said that [

]

Mr. Bowden inquired if the Great Plains sponsors could [

] Mr. Miller replied in the negative. Mr. Miller stated that the staff had gone as far in its analysis as it could without

[ ]

Chairman Noble stated that, as he understood it, according to Mr. Miller's numbers, the Great Plains project was [ ] He observed that [

] Chairman Noble commented that the staff could prepare a much better evaluation if it were able to analyze the sponsor's books. He noted that the Department of Energy does not have the capability to analyze the numbers as the Corporation does. Therefore, he suggested that the Corporation work jointly with DOE to prepare an analysis. Mr. Schroeder agreed that the Corporation should offer to assist DOE in its analysis. He added that it is not the proper place of the Corporation to comment on which agency should have authority for Great Plains.

Mr. Bowden stated that the Corporation has a Memorandum of Understanding with the Department of Energy, and, therefore, it would be readily possible to work jointly on an analysis with them. Mr. Cox stated that he believed that such an endeavor was permitted by the Energy Security Act.

Mr. Thompson stated that, in his opinion, the Corporation should share its expertise with the Department of Energy. Mr. Wilkins commented that the Corporation's hands are tied except to help with an evaluation of the numbers.

The Board members then concurred that the Corporation would provide such assistance as appropriate to the Department of Energy concerning evaluation of the Great Plains Coal Gasification project.

The following documents were considered during the closed session:

(1) Description of Present Withholdings and Recommendations for Release
(2) Hampshire Project Maturity Review
(3) Breckinridge Project Maturity Review
(4) North Alabama Project Maturity Review
(5) Scrubgrass Project Strength Review
(6) New England Energy Park Project Strength Review
(7) KILnGAS Project Strength Review
(8) Cottonwood Wash Project Strength Review
(9) ENPEX/SYNTARO Project Strength Review
(10) Keystone Project Strength Review
(11) North Alabama Project Strength Review
(12) World Energy Project Strength Review
(13) Northern Peat Project Strength Review

(14) Paraho Ute Project Strength Review

(15) Sunnyside Project Strength Review

(16) Forest Hill Project Strength Review

(17) Chaparrosa Project Strength Review

(18) Draft Competitive Solicitation for Eastern Province Bituminous Coal Gasification Projects

(19) Draft Competitive Solicitation for Eastern Region of the Interior Province Bituminous Coal Gasification Projects

(20) Draft Competitive Solicitation for Western Subbituminous Coal Gasification Projects

(21) Draft Competitive Solicitation for Eastern Province and Eastern Region of the Interior Province Bituminous Coal Gasification Projects

The meeting was adjourned at 5:00 p.m.

Edward F. Cox
Vice President and General Counsel and Secretary

USSFC
Statement of Expenses

	Fiscal Year 1981 Audited	Fiscal Year 1982 Audited	Fiscal Year 1983 YTD 6/30/83 Unaudited	Total
ADMINISTRATIVE EXPENSES				
Personnel Costs	$3,053,312	$6,383,896	$6,571,389	$16,008,597
Contractual Services	1,415,253	639,445	867,704	2,922,402
Office Occupancy	950,149	1,867,468	1,871,736	4,689,353
Administrative Services	528,604	1,110,535	276,174	1,915,313
Travel and Relocation*	363,377	640,335	680,004	1,683,716
Recruitment*	45,431	253,696	44,583	343,710
Depreciation & Amortization	18,353	133,292	162,327	313,972
Miscellaneous	3,328	36,020	52,706	92,054
	6,377,807	11,064,687	10,526,623	27,969,117
Inspector General	318,204	443,647	424,550	1,186,401
Total administrative expenses	6,696,011	11,508,334	10,951,173	29,155,518
GENERIC STUDIES	4,800	206,055	225,719	436,574
Total expenses	$6,700,811	$11,714,389	$11,176,892	$29,592,092

* Expenses reclassified from Annual Report presentation for comparability with 1983 data.

Administration Group - Financial Management Department

July 19, 1983

POLICY AND PROCEDURE FOR ADMINISTRATION OF CONTRACTUAL ARRANGEMENTS

I. PURPOSE. This statement prescribes the policy and procedures for the award and administration of contractual arrangements, including the use of outside consultants.

II. GENERAL POLICY. It is the Corporation policy to procure services and goods:

- In a manner consistent with overall Corporation goals as prescribed by the Energy Security Act of 1980, Public Law 96-294.
- In accordance with best commercial practice and generally consistent with federal procurement policy.
- From the highest quality sources at the lowest reasonable cost.
- In a timely manner with due consideration to efficiency and economy.
- By dealing openly and fairly with the professional and business communities.

III. CONSIDERATIONS FOR USE OF OUTSIDE CONSULTANTS. The following matters are to be considered prior to requesting the use of any outside consultants:

a. Adequacy of objectives and methodology of the study for which the individual firm is to be engaged. The Corporation must have a specific and well-defined need for expertise not presently available within the Corporation and for which it is either infeasible or undesirable to add to the staff. Factors to be considered when determining desirability include: need for objectivity; non-recurring nature of the task; critical timing; unique expertise required to resolve the issue; physical location of a particular assignment.

b. Degree to which the Corporation retains ultimate responsibility. While consultants as independent contractors will have a fair amount of latitude in determining the details of performance, the consulting agreement (as any other administrative contract) should reserve exclusively to the Corporation major decision-making authority with respect to the final product.

c. Whether the consultation can and should be obtained at zero or reduced charge. Non-profit or professional organizations frequently provide services to public organizations on a no cost or low cost basis. In addition, any organization whose self-interest and reputation would be enhanced through a formal association with the Corporation may be willing to contribute its time.

Each major consultant contract, aside from all other considerations, should be subjected to an analysis comparing its cost to the cost of developing an in-house capability.

d. Sensitivity of the subject and need to limit outsiders who will be given information.

Use of outside consultants sometimes involves a potential conflict of interest problem for the Corporation and the consultant. This area is very sensitive, and safeguards necessary to avoid even the appearance of a potential conflict place a burden on both parties -- e.g., the Corporation could become embroiled in burdensome investigations and reviews, or consultants could be asked to forego work in areas related to its task for the Corporation.

e. Qualifications of the individual or firm with regard to the specific Corporation need. Previous experience with a particular consultant may be useful for evaluative purposes, but should not be the only basis for selection or a sole source award.

f. Consideration of efforts elsewhere in the Corporation that may be related to the matter for which the individual or firm is being engaged. This would serve to prevent duplicative efforts as well as to suggest ways in which the task could be expanded to serve more than one purpose.

g. Whether expertise is needed for general consultation rather than a specific task. If a task cannot be specifically defined, outside consultants should not be used. Rather, consideration should be given to hiring an individual expert as an employee of the Corporation. As an employee, the individual would be subject to appropriate restrictions in the areas of financial interests, conflict of interest, and safeguarding Corporation information.

Persons in this category should be employed in accordance with established Corporation personnel procedures.

IV. RESPONSIBILITIES.

A. Delegation of Authority

- o The Chairman of the Board is the Contracting Officer for the Corporation.

- The Vice President of Administration will serve as Contracting OFficer for the Corporation, for awards not exceeding $25,000.

B. Procurement Office

- All contracts for goods and services will be solicited, negotiated, awarded and administered by the procurement office, under the authority of the Vice President of Administration.

C. Program Office (Corporation user)

The Corporation user will be responsible for the following:

- Determining and coordinating the need for goods or services to meet overall corporate goals;
- Planning the procurement so that adequate time exists for acquisition of the service or goods (including coordination with the procurement office);
- Completing procurement request form (Exhibit 1) and necessary attachments, and forwarding to procurement office;
- Participating in preparation of solicitation document;
- Assuming primary responsibility for technical evaluation of proposals received;
- Participating with the procurement officer in negotiations;
- Participating in the recommendation for award; and
- Monitoring the contract performance, including review and approval of the services or deliverables.

V. PROCEDURES

A. Normally, the professional services and studies procured by the Corporation will be acquired through negotiated contracts. In such cases, proposals shall be solicited through the issuance of a solicitation document (RFP) from enough qualified sources to assure adequate competition. Those contacted shall be furnished the following information in writing:

(1) The nature and scope of work;

(2) Time to be allowed for performance;
(3) Any general background and specific experience requirements that may apply; and
(4) Type of contract and other ground rules for the procurement, including the basis for evaluation of proposals and award of contracts.

B. A proposal shall be requested from enough sources to provide adequate competition, and shall describe:

(1) The offeror's plan for performing the work;
(2) The resources that will be applied to perform the work;
(3) The offeror's qualifications and experience; and
(4) Relevant details as to price.

C. From those contacted, the Contracting Officer shall select, in collaboration with the Corporation user, those whose offers appear most advantageous to the Corporation, other factors as well as price considered.

D. Offerors shall be given a common cutoff date for receipt of all modifications of their offers, and upon completion of all meetings and written submissions by the offerors, the Contracting Officer and the Corporation user shall review and analyze the offers and select that firm whose offer is determined to be in the best interest of the Corporation. A record of the reasons for the selection, covering the strengths and weaknesses of each of the offers, and the rationale supporting the final selection shall be included in the contract file.

E. An appropriate contract award document shall be prepared by the Contracting Officer, acceptable to the General Counsel and the Corporation user. This document shall be offered to and executed by the firm selected by the Corporation, and then, assuming all required approvals have been obtained, executed by the Contracting Officer.

F. After award, those not selected shall be so notified.

VI. PROCUREMENT REQUESTS. No procurement action shall be instituted without a written Procurement Request (Form SFC 103 F011) signed by an authorized representative of the Vice President of the requiring office and the Budget Officer, who determines that the amount of funds estimated for the procurement are available.

The Contracting Officer may waive the requirement for a written procurement request where time does not permit its preparation, in which case a written Procurement Request will be prepared as soon as possible to confirm the requested action. The Contracting Officer will initiate procurement action upon receipt of a Procurement Request and keep the requiring office advised as to progress.

VII. INTERIM CONTRACT ARRANGEMENTS. Where time does not permit the execution of a formal contract between the parties, the Contracting Officer may issue an informal letter contract as an interim arrangement until a formal contract can be prepared. However, this interim arrangement must contain all terms of the formal contract that can be agreed upon at the time of award and shall provide an enforceable mechanism for formalization. Interim arrangements shall be formalized as soon as practicable after issuance.

VIII. COMPETITION. Contract awards shall be based on competition whenever practical. Sole source awards shall be limited to situations where time is of the essence or where, for all practical purposes, only one source can perform the contract. Sole source selections shall be supported by a memorandum prepared by the Corporation user and approved by the Contracting Officer, which sets forth the justifying circumstances.

IX. CONTRACT STATUS REPORTING. As part of the Corporation management information system, the Contracting Officer will prepare a monthly contract status report for submission to the Chief Operating Officer and for distribution to all Corporation Officers.

X. CONTRACT ADMINISTRATION. Requirements for monthly progress and financial reporting will be incorporated into every contract to the extent considered reasonable and necessary. The proper administration of contracts requires the cooperation of the various Corporation departments involved, including the responsible program office, procurement office, and accounting office.

VI. CONSULTING AGREEMENTS

A. Contracting for the use of outside expert consultants to assist the Corporation in certain areas of its activities has inherent characteristics which require special treatment. The coverage in this Chapter outlines that treatment. Where there are variations or departures from policies and procedures stated elsewhere in the Manual, these will be explicitly set forth in this Chapter and will govern. Unless they are so set forth, the general policies and procedures pertain. In order to keep clear the differentiation, contractual arrangements for consultants are described as "Consulting Agreements."

B. The following matters are to be considered by the User prior to requesting placement of a consulting agreement:

1. Adequacy of objectives and methodology of the study for which the individual or firm is to be engaged. The Corporation must have a specific and well-defined need for expertise not presently available within the Corporation and for which it is either infeasible or undesirable to add to the staff. Factors to be considered when determining desirability include: need for objectivity; non-recurring nature of the task; critical timing; unique expertise required to resolve the issue; physical location of a particular assignment.

2. Degree to which the Corporation will retain ultimate responsibility. While consultants, as independent contractors, will have a fair amount of latitude in determining the details of performance, the consulting agreement should reserve exclusively to the Corporation major decision-making authority with respect to the scope and contents of the final product.

3. Whether the consultation can and should be obtained at reduced or zero charge. Non-profit or professional organizations occasionally provide limited services to public organizations on a no-cost or low-cost

basis. In addition, an organization whose self-interest and reputation would be enhanced through a formal association with the Corporation may be willing to contribute or discount the cost of its time, although care must be taken to ensure that any such association does not raise potential conflicts-of-interest issues.

Each consulting agreement, aside from all other considerations, should be subjected to an analysis comparing its cost to the cost of developing an in-house capability.

4. Sensitivity of the subject and need to limit outsiders who will be given information. Use of outside consultants sometimes involves a potential conflict of interest problem for the Corporation and the consultant. This area is very sensitive, and safeguards necessary to avoid even the appearance of a potential conflict place a burden on both parties -- e.g., the Corporation could become embroiled in burdensome investigations and reviews, or consultants could be asked to forego work in areas related to its task for the Corporation.

5. Qualifications of the individual or firm with regard to the specific Corporation need. Previous experience with a particular consultant may be useful for evaluative purposes, but should not be the only basis for selection or a noncompetitive award.

6. Consideration of ability to coordinate the proposed consulting work with efforts elsewhere in the Corporation that may be related to the matter for which the individual or firm is being engaged. This would serve to prevent duplicative efforts as well as to suggest ways in which the task could be expanded to serve more than one purpose.

7. Whether expertise is needed for general consultation rather than a specific task. If a task cannot be specifically defined, outside consultants generally should not be used (see "H" below). Rather, consideration should be given to hiring an individual expert as an

employee of the Corporation on a temporary basis. As an employee, the individual would be subject to appropriate restrictions in the areas of financial interests, conflict of interest, and safeguarding Corporation information.

C. Whenever a request for procurement of consultant services is sent to the Contracts Office it is to incorporate or be accompanied by a Statement of Need for Procurement. This need not (and should not) be long or complicated. It should, however, evidence consideration of the factors listed in B.1 and B.6 above. In this respect, particular emphasis is to be placed on coordination with other organizations within the Corporation, including the Contracts Office, to avoid possible duplication or inconsistency in procurement requirements. This coordination is to be reflected in the Statement of Need, which is to be signed at the Vice Presidential or comparable level.

D. In order to simplify and expedite placement of a consulting agreement when it has been determined that one is needed, a Consultant Agreement "Work Kit" has been developed and distributed throughout the Corporation. This is reproducible, but additional sets may be obtained from the Contracts Office. The Kit which is reproduced in Chapter VII, "Forms", consists of the following one-page documents:

1. Form: "Request for Consulting Agreement".
2. Instructions for filling out the Request form.
3. Conflicts of Interest Disclosure Statement (to be executed and signed by the prospective consultant).

The Conflicts of Interest Disclosure Statement must be completed, signed, and cleared with the Corporation's Ethics Officer prior to release of the consulting agreement or start of work by the consultant. Every effort should be made by the User to have the Disclosure Statement completed and signed, and then cleared by the Ethics Officer as early as is practicable after the prospective consultant has been identified, rather than as the last step prior to release of the consulting agreement. If there is a problem, it is best to have it identified at the front end of the process.

E. Selection of individual consultants differs somewhat from the policy and procedures set forth in Chapter III, "Source Selection". Inasmuch as the Corporation is for the most part seeking highly specialized professional expertise, the selection of an individual to meet that requirement need not be in conformity with the more formal requirements of Chapter III. The User organization must, of course, set forth in its request for procurement its basis for the selection of a particular individual. National or other recognition as an expert can serve as a basis for selection. Availability and proximity also supports such a selection. Demonstrated performance for the User or other clients in like or related areas to that for which the consultant's services are sought is likewise supportive of selection of an individual. Previous experience with the prospective consultant is not in itself indicative of improper selection; people seek out and have confidence in those whose capabilities they know first hand rather than having to rely on someone whose capabilities may be ascertained only through other sources. If there is or has been such previous experience, however, the Corporation should assure that the basis for selection is qualification and merit.

F. An official, and his cognizant Vice President, requesting issuance of a consulting agreement for services of an individual - whether directly or through a company - shall include with the request written signed statements identifying any prior or current business or personal relationship with the proposed consultant. Such statements are to briefly indicate any information concerning that experience which would relate to qualification for selection. Absence of any such relationship is to be indicated on the request form. Additionally, the proposed consultant will be provided a list of the Directors and Officers of the Corporation and required to make a written statement as to any personal or business relationship he or she has or has had with such Directors and Officers, as well as with the official requesting acquisition of the consultant's services by contract.

(Added 6-22-83)

G. The provisions of Chapter IV, "Source Evaluation Boards", do not apply to selection of individual consultants.

H. In the case of consulting agreements with firms (rather than with an individual or for an individual's services through a firm), there is no exception to the requirements of Chapter III and Chapter IV. Full or limited competition is in order, or a selection on a noncompetitive basis must be justified as provided in that Chapter.

I. Uniform provisions for consulting agreements have been developed by the Contracts Office and the General Counsel's Office. These are comprised of standard clauses on Standards of Conduct, Confidentiality, and Work Product. They also include several versions of provisions on Term of Agreement and Compensation and Reimbursement of Expenses. These are tailored to the needs of given situations.

J. Where it is advantageous to have a consultant's services for a period of time in a particular area of expertise for a series of tasks not specifically identifiable at the time of entering into an agreement, this area may be stated in broad terms in the Scope of Work, with provision for issuance of specific tasks from time to time as they are identified as being required.

K. Consulting Agreements will specify the Corporation official under whose direction the consultant will perform the services specified in the Scope of Work or Task Orders thereunder. The Scope of Work should specify "deliverables", e.g., written studies, reports, analyses, or advice. The User organization is responsible for seeing to it that these are delivered in accordance with the terms of the agreement.

L. The requirements of Chapter VII, "Contract Administration", apply to Consulting Agreements.

United States
Synthetic Fuels Corporation

July 25, 1983

Ms. Susan M. Collins
Staff Director
Subcommittee on Oversight of
Government Management
Committee on Governmental Affairs
U. S. Senate
Washington, D.C. 20510

Dear Ms. Collins:

There is attached a table providing the information you requested relative to the extent of competition in our procurements.

As you will note, by far the preponderance of money spent under contractual arrangements is pursuant to procurements involving some type of competition.

In our discussion we mentioned our current "omnibus" procurement in support of the Recommended Comprehensive Strategy which is required by the Energy Security Act. We have now received proposals from 65 firms, representing more than 140 proposals on the various task areas covered in the Request for Proposals. Since this will probably be our largest contract action during the year, the 70% figure for 1983 competition should increase by the end of this year. George Vecchietti will be pleased to further describe this procurement should you so desire.

Sincerely,

Dwight Ink

Dwight Ink
Vice President
Administration

Attachment

DATA ON COMPETITION IN SFC CONTRACTS AND CONSULTING AGREEMENTS - REQUESTED BY COMMITTEE STAFF

FY 1982

Type of Action	Number	Dollar Value	% of $ Competed
o Individual Consultants	26	$ 276,615	-
o Competitive	0		0%
o Consulting Firms	4	$ 88,000	-
o Competitive	4	$ 88,000	100%
o Contracts	27	$1,707,858	-
o Competitive	23	$1,631,610	96%
o TOTAL PROCUREMENTS*	57	$2,072,473	-
o Competitive (Total)	27	$1,719,610	83%

FY 1983 (As of 6-30-83)

o Individual Consultants	25	$ 346,850	-
o Competitive	0		0%
o Consulting Firms	11	$ 291,580	-
o Competitive	9	$ 215,580	74%
o Contracts	17	$1,813,598	-
o Competitive	14	$1,488,848	82%
o TOTAL PROCUREMENTS*	53	$2,452,028	-
o Competitive (Total)	23	$1,704,428	70%

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*Does not include small purchases made under Simplified Small Purchase Procedures ($10,000 and under purchase orders of supplies & services, and purchases from GSA Supply Schedules).

7/25/83

United States Synthetic Fuels Corporation

Annual Report 1981

FROM THE CHAIRMAN

Development of a commercial synthetic fuels industry in the United States is an important step that must be taken now to promote greater energy security in support of the Nation's defense and economy.

The synthetic fuels effort is but one part of a multi-faceted energy program for our country. It can, however, make a significant contribution in the coming years as the Nation moves from our present reliance on finite resources with their limited capacity to a mix of renewable energy sources and technologies which will assure sufficiency. Our country has vast reserves of coal and oil shale as well as significant amounts of tar sands and heavy oils, while conventional domestic supplies of oil and gas are insufficient to meet demand. A producing, economically viable synthetic fuels industry will enable us to convert the energy resources we have into the forms we require.

Development of any new industry is challenging and complex, but synthetic fuels development presents particular difficulties because of the many uncertainties associated with its financing, technology, and regulatory compliance. Financial uncertainties range broadly from plant construction and operating costs to outyear prices to the marketability of products. On the technical side, commercial experience with most of the key processes and technologies necessary for synthesis conversion ranges from limited to virtually nonexistent. Regulatory concerns include potential environmental, health and safety, and socio-economic impacts which must be addressed at every step and carefully monitored as the first plants are built and brought on line.

The purpose of the Corporation is to limit some of the uncertainties by sharing with private sponsors some of the risks inherent in the first commercial projects, thereby promoting increased energy security and decreased vulnerability to the OPEC cartel. Simply put, should OPEC consider excessive or arbitrary price increases in the future, it will have to take into account the work of the Corporation as a strong new hand on the tiller of events.

The vitality of a bountiful America lies in its strong free market economy. In keeping with the traditions of this vitality, the Corporation will provide various forms of financial assistance in support of the best private sector efforts to develop a diversified and economically sound synthetic fuels industry. The private sector must bring creativity, commitment, and substantial capital investment; the Corporation will provide financial risk-sharing.

All in all, progress has been good. The Corporation is substantially through Phase I evaluations of projects received under the Initial Solicitation. We have issued a Second Solicitation and are actively considering others. The Corporation's first awards are expected this summer. I am happy to report that after a somewhat rough start the United States Synthetic Fuels Corporation is now on a steady course. We are working effectively and cooperatively with the private sector toward our goal of improved energy sufficiency, national security, and economic prosperity.

Edward E.

EDWARD E. NOBLE
January 28, 1982

Response to Senator Cohen's request for detail on statement that the synthetic fuels program will generate approximately 150,000 BPD capacity by 1989.

Synthetic fuel production from the Energy Security Act, Phase I money will come from plants now under construction, projects now under evaluation or negotiation with the Synthetic Fuels Corporation and projects submitted in response to competitive solicitations for which funds have been reserved. The data below is from projects in each category. There are now more projects before the Corporation than will be funded and selections have not yet been made. Therefore, the estimate of Phase I capacity is non-specific although each of the projects is listed to provide a basis for the estimate.

TABLE I

PROJECTS UNDER CONSTRUCTION

PROJECT	CLASS	CAPACITY[1] BPSD	START-UP DATE
Cool Water	Coal Gasification	4,300	1984
Great Plains	Coal Gasification	21,000	1984
Union Oil Phase I	Shale Oil	10,000	1983
		35,300	

TABLE II

PROJECTS WITH LETTERS OF INTENT

PROJECT	CLASS	CAPACITY BPSD	START-UP DATE
Calsyn	Heavy Oil Conversion	5,883	1985
Cathedral Bluffs	Shale Oil	14,674	1988
First Colony	Peat Gasification	2,158	1986
Santa Rosa	Tar Sands	4,275	198[illegible]
		26,990	

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[1] BPSD equals barrels of oil equivalent per stream day. A stream day refers to the time a plant is running.

TABLE III

PROJECTS IN EVALUATION, NEGOTIATION OR RESERVED SOLICITATION

PROJECT	CLASS	CAPACITY BPSD	START-UP DATE
American Syncrude	Shale Oil	4,160	1989
Chaparrosa Ranch	Tar Sands	5,350	1985
Dowsyn	Coal Gasification	5,172	1986
Forest Hill	Tar Sands	1,870	1984
HOP Kern River	Tar Sands	3,938	1985
Kensyntar	Tar Sands	7,564	1984
Kentucky Tar Sand	Tar Sands	5,600	1986
Keystone	Coal Indirect Liquefaction	6,600	1988
Means	Shale Oil	13,440	1988
Memphis	Coal Gasification	8,621	1987
North Alabama	Coal Indirect Liquefaction	14,000	1988
Northern Peat	Wet Carbonization of Peat	2,900	1986
Paraho-Ute	Shale Oil	14,105	1987
Seep Ridge	Shale Oil	1,000	1985
Sunnyside	Tar Sands	10,000	1985
Union Oil Phase II	Shale Oil	21,076	1990-1994
White River	Shale Oil	16,500	1988
World Energy	Coal Gasification	4,123	1986
Gulf Coast Lignite	Coal Gasification	11,500	1989
Eastern/Eastern Interior Bituminous	Coal Gasification	10,000 plus	By 1991
		167,519 plus	

TABLE IV

ANTICIPATED AWARDS FROM TABLE III

PROJECT	CLASS	CAPACITY BPSD	START-UP DATE
Two	Shale Oil	35,000	1988
Five	Tar Sands/Heavy Oil	22,000	1985-1988
Three	Coal Gasification/Peat	21,500	1986-1988
Gulf Coast Lignite	Coal Gasification	11,500	1988
Eastern/Eastern Interior Bituminous	Coal Gasification	10,000	1989
		100,000	

The estimate given, 150,000 BPSD by 1989, is composed of Tables I, II and IV. This actually totals 162,290 BPSD, but estimates are very imprecise.

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STANDARDS OF CONDUCT

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PART 1 - GENERAL

Section 1. Purpose and Scope.

(a) The purpose of this policy is to assure that the business of the United States Synthetic Fuels Corporation (the "Corporation") is conducted effectively, objectively, and without improper influence or the appearance thereof. The Corporation expects that its Directors, Officers, and Employees will exhibit courtesy, consideration, and promptness in all dealings with the public, with parties having business before the Corporation, and with government agencies and will avoid any action, whether or not specifically prohibited by this policy, which might result in, or create the appearance of:

(1) using Corporation office for private gain;

(2) giving improper preferential treatment to any person;

(3) impeding the efficiency and economy of the operations of the Corporation;

(4) making a Corporation decision outside of official channels; or

(5) affecting adversely the confidence of the public in the integrity of the Corporation.

(b) This policy also implements:

(1) the financial disclosure provisions of the Ethics in Government Act of 1978, as amended (Pub. L. 95-521), made applicable to the Corporation by Section 118(a) of the Energy Security Act (Pub. L. 96-294) (the "Act" or the "Energy Security Act");

(2) the regulations relating to the financial disclosure provisions of the Ethics in Government Act of 1978, as amended, issued by the Office of Personnel Management (5 C.F.R. Part 734);

(3) the provisions of Section 207(a) of title 18 of the United States Code (and subsections (f), (h) and (j) of such section to the extent that they relate to section 207(a)) relating to post-employment prohibitions applicable to former Directors, Officers and Employees of the Corporation, pursuant to Section 118(d) of the Energy Security Act; and

(4) the regulations relating to 18 U.S.C. 207(a) and subsection (f), (h), and (j) of said section as they relate to 18 U.S.C. 207(a), issued by the Office of Personnel Management. (5 C.F.R. Part 737).

In addition, this policy directs the attention of the Directors, Officers, and Employees of the Corporation to certain important prohibitions and requirements imposed by the Energy Security Act and other laws of the United States. This policy does not purport to reflect or enumerate all restrictions or requirements imposed by statutes, regulations or otherwise upon Corporation Directors, Officers, and Employees and former Directors, Officers, and Employees of the Corporation. The omission of a restatement of or a reference to any restriction or requirement in no way alters the legal effect of that restriction or requirement and any such restriction or requirement, as the case may be, continues to be applicable in accordance with its own terms.

(c) It is expected that the provisions of this policy will be observed and administered in a manner which is consistent with both their spirit and their letter.

Section 2. Applicability.

Unless specifically provided otherwise, the provisions of this policy apply to all Directors and Employees of the Corporation.

Section 3. Definitions.

Unless the context requires otherwise, the following definitions apply in this policy:

"Act" and "Energy Security Act" mean the Energy Security Act (95 Stat. 611, Pub. L. 96-294) approved June 30, 1980.
"Board of Directors" and "Board" mean the Board of Directors of the Corporation.

"Chairman" means the Chairman of the Board of Directors or his delegee.

"Corporation" or the "United States Synthetic Fuels Corporation" means the Corporation created by Subtitle B of Title I of the Act.

"Director" means a member of the Board of Directors.

"Employee" means a Corporation officer or a full-time or part-time employee of the Corporation or an employee of a Government agency assigned or detailed to the Corporation.

"Ethics Officer" means the person designated pursuant to Section 5 hereof to administer this policy and the provisions of Title II of the Ethics in Government Act within the Corporation.

"Participating Organization" means any entity listed on the List of Participating Organizations published from time to time by the Ethics Officer under Section 6(b)(5) hereof, which List shall contain the name of each firm, corporation or other entity which has undertaken or formally proposes to undertake a synthetic fuels project involving the Corporation and any other entity participating in any material way in any such project, including but not limited to financial institutions, investment bankers, construction companies, engineering firms, supply contractors and attorneys.

Section 4. Corporation Ethics Program.

(a) The Corporation's ethics program shall consist generally of liaison with the Office of Government Ethics; review of financial disclosure reports; ethics counseling; and the administration of this policy within the Corporation.

(b) The Ethics Officer under the direction of the Chairman is the Corporation official responsible for establishing, maintaining and carrying out the Corporation's ethics program. To carry out this responsibility, sufficient resources (including investigative, audit, legal and administrative staff as necessary) shall be made available to enable the Corporation to administer its program in a positive and effective manner.

Section 5. Designated Corporation Ethics Officer.

(a) By designation of the Chairman, a qualified attorney in the Office of the General Counsel of the Corporation shall serve as the Corporation's ethics official and as such will administer the provisions of Title II of the Ethics in Government Act within the Corporation, coordinate and manage the Corporation's ethics program and provide liaison to the Office of Government Ethics with regard to all aspects of the Corporation's ethics programs.

(b) The Chairman may designate an alternate Corporation Ethics Officer who shall serve in an acting capacity in the absence of the designated Ethics Officer.

Section 6. Responsibilities and Administration.

(a) Each Employee shall:

(1) read and comply with this policy and the statutes and regulations referred to herein. Each Employee shall receive a copy of this policy and acknowledge such receipt in writing prior to assuming duties at the Corporation or, if already employed, promptly after the effective date of the policy;

(2) be mindful of the high standards of integrity expected of them in all their activities, personal and official;

(3) recognize that violation of the provisions of this policy or the laws referred to herein may subject them to dismissal, disciplinary action, and other penalties; and

(4) discuss with the Ethics Officer any problems arising out of this policy.

(b) The Ethics Officer shall:

- (1) assure that required reports are promptly filed by all Directors and Employees;
- (2) review all reports submitted to him;
- (3) notify Directors and Employees at the time of entrance on duty and periodically thereafter of the availability of counseling services and how and where these services are available;
- (4) bring the provisions of this policy to the attention of each Director and Employee as circumstances warrant;
- (5) compile, maintain and periodically update a list of all Participating Organizations and submit such list to the Vice President for Administration for distribution to all Directors and Employees; and
- (6) serve as the Corporation's designee to the Office of Government Ethics on matters within the jurisdiction of that office covered by this policy.

(c) The Director of Personnel shall:

- (1) distribute to prospective Employees, and departing Employees, those forms required to be submitted pursuant to this policy; and
- (2) distribute a copy of this policy to all prospective Employees at the time of an offer of employment with the Corporation is made or, if possible, prior to making such offer.

PART 2 - CONDUCT OF EMPLOYEES

Section 7. General.

(a) It is the policy of the Corporation not to interfere in the private lives of its Directors and Employees. However, in view of the public trust confided to the Corporation by the Energy Security Act, certain standards of conduct, some of which are statutory, are required to assure the proper performance of the Corporation's business and the maintenance of public confidence in the Corporation. The provisions of this section are designed to insure the fulfillment of that trust and the maintenance of that public confidence. Adherence to the provisions in this section requires that Directors and Employees not do indirectly what would be improper to do directly.

(b) The attention of Directors and Employees is directed to the following statutory provisions:

- (1) The prohibition contained in section 118(c) of the Act (42 U.S.C. 8714(c)) relating to a Director voting on any matter in which, to his or her knowledge, he or she has a financial interest (See Section 17(g) hereof).

(2) The prohibition contained in section 118(d) of the Act (42 U.S.C. 8714(d)) relating to post-employment activities of former Directors and Employees of the Corporation (See Section 20 hereof).

(3) The prohibition contained in section 161 of the Act (42 U.S.C. 8761) relating to false statements in connection with certain Corporation activities.

(4) The prohibition contained in section 162 of the Act (42 U.S.C. 8762) relating to forgery of Corporation instruments and agreements.

(5) The prohibition contained in section 163 of the Act (42 U.S.C. 8763) relating to misappropriation of funds and unauthorized activities in relation to the Corporation's business.

(6) The prohibition contained in section 164 of the Act (42 U.S.C. 8764) relating to conspiracy to commit acts made unlawful by sections 161, 162 or 163 of the Act.

(7) The prohibition contained in section 171(b) of the Act (42 U.S.C. 8771(b)) relating to the exercise of the Corporation's authorities.

(8) The prohibition contained in section 121(c) of the Act (42 U.S.C. 8717(c)) and 18 U.S.C. 1905 relating to the disclosure of confidential information.

(9) The prohibition contained in 18 U.S.C. 201 relating to the solicitation or receipt of anything of value for or because of an official act.

(10) The prohibition contained in 18 U.S.C. 1719 relating to misuse of the franking privilege.

(11) The prohibition contained in 18 U.S.C. 600 relating to promises of employment or other benefit for political activity.

(12) The prohibition contained in 18 U.S.C. 601 relating to deprivation of employment or other benefit for political contribution.

(13) The prohibition contained in 18 U.S.C. 602 relating to solicitation of political contributions.

(14) The prohibition contained in 18 U.S.C. 603 relating to making political contributions

Section 8. Gifts, Gratuities, Entertainment and Favors.

(a) Acceptance of gifts, gratuities, entertainment and favors from those who have or seek business with the Corporation may be a source of embarrassment to both the Corporation and the Director or Employee involved, may affect or appear to affect the objective judgment of the recipient, and may impair public confidence in the integrity of the

Corporation's business relationships. Therefore, except as provided in subsection (b) of this section, no Director or Employee shall knowingly solicit or accept, directly or indirectly, any gift, gratuity, favor, entertainment, loan or any other thing of monetary value, from any Participating Organization or any person who (1) has, or is seeking to obtain, contractual, or other business or financial relations with the Corporation; or (2) has interests that may be substantially affected by the performance or nonperformance of the Director's or Employee's official duty. In those cases in which the tender of any such gift, gratuity or other thing of monetary value occurs under circumstances making the return thereof to the donor either impractical or impossible, the item involved shall be promptly delivered to the Vice President for Administration of the Corporation. All such items delivered to the Vice President shall be disposed of by him in accordance with instructions of the General Counsel of the Corporation.

b) Notwithstanding the foregoing, a Director or Employee may:

(1) accept gifts, entertainment or favors given him as a result of obvious family or personal relationships (such as those between a parent, child, spouse or other relative of the Director or Employee) when the circumstances make it clear that it is those relationships rather than the business of the persons concerned which are the motivating factors;

(2) accept food and refreshments of moderate value on infrequent occasions in the ordinary course of a luncheon or dinner meeting or other meeting or on an inspection tour where such Director or Employee is authorized by the Corporation to be in attendance;

(3) with approval of the Vice President to whom he or she reports and the Ethics Officer, accept food and refreshment, transportation, lodging or subsistence from a consumer, environmental, industrial, technical, trade, professional or other association or similar group, in connection with the Employee's participation in a widely attended luncheon, dinner, seminar, conference or similar gathering sponsored by the donor; provided that this exception shall not apply when the donor is a Participating Organization or an association or group composed principally of Participating Organizations.

(4) accept loans from banks or other financial institutions or parties on customary terms to finance proper and usual activities such as home mortgage loans;

(5) accept unsolicited advertising or promotional material, such as pens, pencils, note pads, calendars and other items of nominal intrinsic value; and

(6) accept transportation to inspect or investigate a location or facility, if under the circumstances it would be unduly inconvenient or inefficient to use other transportation.

Section 9. *Outside Employment and Other Outside Activity.*

(a) Employees are prohibited from holding employment with any Participating Organization and shall not engage in any other outside employment or outside activity not compatible with the full and proper discharge of the duties and responsibilties of their Corporation employment. Incompatible activities include but are not limited to:

(1) acceptance of a fee, compensation, gift, payment of expense or any other thing of monetary value in circumstances in which acceptance may result in, or create the appearance of, a conflict of interest; or

(2) outside employment which tends to impair the individual's mental or physical capacity to perform his or her Corporation duties and responsibilities in an acceptable manner, or which requires time or attention during the Employee's official work hours.

(b) Within the limitations imposed by this section, Employees are encouraged to engage in teaching, lecturing and writing. However, a Director or Employee shall not, either for or without compensation, engage in teaching, lecturing or writing that is dependent on information obtained as a result of the Employee's Corporation employment, except (1) where that information has been made available to the general public or will be made available on request, or (2) when the Chairman gives written authorization for the use of non-public information on the basis that the use is in the public interest. To the extent there is a variance, any such teaching, lecturing and writing shall clearly distinguish the views of the Employee from those of the Corporation and its management. In addition, Directors and Employees shall not accept any compensation or honorarium for any consultation, lecture, discussion, writing or appearance the subject matter of which is devoted substantially to the responsibilities, programs or operations of the Corporation.

(c) No Employee shall accept a fee from an outside source on account of a public appearance, speech or lecture (1) if the public appearance or the preparation or delivery of the speech or lecture was a part of the official duties of the Employee, (2) if the public appearance, speech or lecture was made during official working hours, or (3) if travel for the purpose of the public appearance, speech, or lecture was made at Corporation expense. In addition, no Employee shall accept a fee for the preparation, publication or review of an article, story or book if it was prepared during official working hours or was part of the official duties of the Employee.

(d) This section shall not preclude an Employee from:

(1) participating in discussions and meetings of a professional nature and from receiving from outside sources (other than a Participating Organization) bona fide reimbursement for actual expenses of travel and subsistence incurred in connection with his or her participation if such Employee's participation is not a part of his official duties at the Corporation;

(2) participating in the affairs of, or acceptance of an award for a meritorious public contribution or achievement given by a charitable, religious, professional, social, fraternal, educational, recreational, public service or civic organization.

Section 10. Confidential Information.

(a) Section 163(a)(4) of the Act makes it a criminal offense for anyone to give to any person any unauthorized information concerning any future action or plan of the Corporation, or having such information to invest or speculate, directly or indirectly, in the securities or property of any company, bank or corporation receiving financial assistance from the Corporation. Criminal statutes also prohibit a Director or Employee from disclosing, other than as provided by law, confidential business information obtained through his employment (Section 121(c) of the Act and 18 U.S.C. 1905).

(b) A Corporation Director or Employee shall not make use or give the appearance of making use, or permit others to make use or give the appearance of making use, of Corporation information not made available to the general public, for the purpose of furthering a private interest.

(c) As a result of their official duties, Directors and Employees will frequently have access to business information of a confidential nature, including commercial, financial or proprietary data provided by companies seeking financial assistance from the Corporation. Such information is disclosed for official use within the Corporation and is made available for no other purpose than consideration of the financial assistance application or other Corporation matters. Where such confidential business information might be compromised in responding to outside inquiries from apparently authorized or legitimate sources, such as Government agencies, these inquiries should be referred to the Director of Public Disclosure to determine whether the nature and circumstances of such inquiries justify disclosure of the particular information sought.

Section 11. Use of Corporation Property.

A Director or Employee shall not, directly or indirectly, use, or allow the use of, Corporation property of any kind, including property leased to the Corporation, for other than officially approved activities. An employee has a positive duty to protect and conserve Corporation property, including equipment, supplies and other property entrusted or issued to him.

Section 12. Gambling, Betting, and Lotteries.

An Employee shall not participate, while on Corporation owned or leased property, or while on duty for the Corporation, in any gambling activity including the operation of a gambling device, in conducting a lottery or pool, in a game for money or property or in selling or purchasing numbers slips or tickets.

Section 13. Courtesy.

An Employee shall conduct himself in a manner that will assure effective accomplishment of his responsibilities and must observe the requirements of courtesy, consideration and promptness in dealing with those seeking the Corporation's assistance.

Section 14. Availability of Counseling.

Each Director or Employee may consult the Ethics Officer at any time during normal Corporation hours for counseling on problems raised by this policy.

Section 15. Complaints.

Complaints from any source concerning the subject matter of this policy, whether emanating from within or outside the Corporation, are to be submitted to the Ethics Officer.

PART 3 - FINANCIAL INTERESTS, PRIOR EMPLOYMENT, AND SIMILAR INTERESTS

Section 16. Restrictions Related to Employee Financial Interests, Prior Employment, and Similar Interests.

(a) The maintenance of public confidence in the Corporation requires that a Director or Employee not take any action which would constitute the use of his or her Corporation position to advance personal or private interests.

(b) After assuming an office or employment with the Corporation, a Director or Employee shall not acquire any financial interest in a Participating Organization while it is on the list of Participating Organizations maintained by the Ethics Officer pursuant to Section 6(b)(5).

(c) Unless authorized to do so as provided hereafter in this section, an Employee shall not participate personally and substantially as an Employee in a particular matter in which the Employee knowingly has a financial interest or in which he or she participated personally and substantially prior to employment by the Corporation.

(d) For purposes of this section -

  (1) An Employee "participates" in a particular matter through decision, approval, disapproval, recommendations, evaluation, the rendering of advice, negotiation, investigation, implementation or otherwise.

  (2) "Particular matter" is any synthetic fuel project proposal or other application, request for determination, proposal, agreement, contract, claim, controversy, or other similar matter involving a specific party or parties under consideration within the Corporation.

(3) A "financial interest" of an Employee includes the financial interest of the Employee's spouse, dependent child, partner, or an organization (other than the Corporation) in which the Employee is serving as an officer, director, trustee, partner, or employee, or any person or organization with whom the Employee is negotiating or has an arrangement concerning prospective employment. An Employee shall be deemed to be negotiating for prospective employment upon an expression of interest in response to a solicitation for future employment by either the Employee or the person or organization.

(e) With the approval of the Chairman, the Ethics Officer may waive the restrictions of subsection (c) of this section in a particular matter for an individual if the Ethics Officer determines in writing that the interest is too remote or too inconsequential, or the prior participation was too insubstantial, to affect the integrity of the services which the Corporation may expect of the individual. This determination shall be made after consultation with the Vice President in charge of the Employee's work assignment. Where it appears that a conflict of interest would arise in other matters in which the Employee might in the future be involved in the performance of normal duties, the Ethics Officer will so advise the Chairman and appropriate action shall be taken.

(f) The Chairman may by rule waive the restrictions of subsection (c) of this section for classes of financial interests which the Chairman determines are too remote or too inconsequential to affect the integrity of an Employee's services. The restrictions on the following financial interests are waived pursuant to this paragraph:

> Financial interests in mutual funds, regulated investment companies or similarly constituted entities the portfolios of which are widely diversified, and similarly constituted commercially fungible entities.

(g) Procedure Applicable to Directors.

(1) Subsection 118(c) of the Act prohibits a Director from voting on any matter respecting any application, contract, claim, or other particular matter pending before the Corporation, in which, to the Director's knowledge, he or she, his or her spouse, minor child, partner, or an organization (other than the Corporation) in which the Director is serving as an officer, director, trustee, partner, or employee, or any person or organization with whom the Director is negotiating or has any arrangement concerning prospective employment, has a financial interest. This prohibition shall not apply if the Director first advises the Board of Directors of the nature of the particular matter in which he or she proposes to participate and makes full disclosure of such financial interest, and the Board of Directors determines by majority vote that the financial interest is too remote or too inconsequential to affect the integrity of such Director's services for the Corporation in that matter. The Director shall not participate in such determination.

(2) Prior to any meeting of the Board of Directors at which the Board is expected to vote on any matter respecting any application, contract, claim, or other particular matter pending before the Corporation, the Ethics Officer shall review the financial disclosure report filed with the Corporation by each Director and shall advise each Director in writing if any reported financial interest is within the purview of section 118(c)(1) of the Act.

(3) If a Director has a financial interest within the purview of section 118(c)(1) of the Act and believes that the interest is too remote or too inconsequential to affect the integrity of his services for the Corporation in the particular matter on which the Board is scheduled to vote, he may request the Ethics Officer to evaluate the particular financial interest and make a recommendation to the Board of Directors as to whether, in his opinion, the financial interest in question is too remote or too inconsequential to affect the integrity of the Director's service within the meaning of secton 118(c)(3) of the Act.

PART 4. EXECUTIVE PERSONNEL FINANCIAL DISCLOSURE REQUIREMENTS

Section 17. Financial Disclosure Requirements For Directors and Certain Employees.

(a) Statutory. Section 118(a) of the Act and Title II of the Ethics in Government Act of 1978, (the 1978 "Act") (Pub. L. 95-521, as amended), requires the Directors and certain Employees of the Corporation to disclose personal financial interests and a description of certain employment relationships in order to avoid potential conflicts of interest, and the appearance of such conflicts, which may arise as they carry out the duties of their positions. The 1978 Act directs the Office of Government Ethics ("OGE") to provide for the systematic review of the financial holdings of both current and prospective Directors and Employees. The Office of Personnel Management ("OPM"), on the recommendation of the Director of OGE, has promulgated regulations establishing the procedures for the filing, review, and public availability of the Financial Disclosure Report required under the 1978 Act. (5 C.F.R. Part 734).

(b) General Policy and Purpose. The purpose of this section is to implement the statutory requirements and to provide guidelines for those Directors and those Employees who are required to submit financial disclosure reports under the 1978 Act and the OPM regulations. Reference should be made to the Ethics Act and regulations for detailed statements of the law, definitions, exemptions, limitations, and illustrative examples (5 C.F.C. Sec. 734-103).

Under Title II of the Ethics Act, Directors and officers of the Corporation, and employees whose positions are compensated at a rate equivalent to or above that payable for the grade GS-16 of the Federal General Schedule under 5 U.S.C. 5332, are required to complete financial disclosure forms, disclosing any other employment relationships, any income received (other than from Corporation employment), assets, liabilities, and certain purchases, sales, exchanges, and gifts. These reports are not net worth statements. Only assets held as investments and certain other items must be reported. Items for personal use, such as a residence, a personal automobile or jewelry not held for sale need not be reported. Although the reports must be made available if requested by a member of the public, subject to compliance with certain procedures set out in the OPM regulations, they cannot be used for any commercial purpose, for establishing credit rating, or directly or indirectly, in the solicitation of money for any political, charitable or other purpose. In the event that a report is used by a person for one of these prohibited purposes, the Attorney General may institute a civil action against such person.

(c) Persons Required to File - General Requirements for Filing. Each Director and each employee compensated at a rate equivalent to or above the rate payable for grade GS-16 of the General Schedule prescribed by 5 U.S.C. 5332, and any other Employee in a position determined by the Director of OGE to be of equal classification and certain others unless excluded pursuant to 5 C.F.R. Sec 734.203 (hereinafter referred to as a "reporting individual"), shall file a report in accordance with the following rules:

(1) A reporting individual who, during any calendar year, performs the duties of his or her office for more than sixty days shall file a report on or before May 15 of the succeeding year.

(2) Within thirty days of assuming a position or office at the Corporation, a reporting individual shall file a report, unless such individual

(a) has left another position within the thirty days prior to the assumption of the Corporation position in which a report required by 5 C.F.R Sec. 734.20T has previously been filed, or

(b) has already filed such a report as a nominee for the Corporation position.

(3) On or before the thirtieth day after termination of his or her Corporation employment, a reporting individual shall file a report for the period from the end of the calendar year with respect to which a report was last filed to the date on which the individual left such office or position. If the individual assumes employment within thirty days of leaving the Corporation in another position or office in which a report is required to be filed pursuant to Title II of the 1978 Act, he or she need not file a report under this paragraph.

(4) The Ethics Officer may, for good cause shown, grant to any Employee or class of Employees an extension of up to 45 days. OGE may grant an additional extension of up to 45 days if it makes a determination, based upon the reporting individual's specific reasons which have been

forwarded to OGE by the Ethics Officer along with his or her own comments on the request, that there is good cause shown for an extension.

(5) Any reporting individual who, as determined by the Ethics Officer, is not reasonably expected to perform the duties of his or her office for more than sixty days in a calendar year need not file a report.

(6) Notwithstanding the provisions of paragraph (5) of this section, if the reporting individual does perform the duties of his or her office or position for more than sixty days in a calendar year, and (i) if such individual is a new entrant or a nominee, he or she shall file a report within fifteen calendar days after the sixty-first day unless the individual has filed a request for a waiver which is subsequently granted or (ii) if such individual is terminating employment, he or she shall file a report required by paragraph (3) of this section.

(7) In unusual circumstances, the Director of OGE may grant a request for a waiver of any public reporting requirement otherwise applicable under this section for a reporting individual who is reasonably expected to perform, or has performed, the duties of his or her office for less than 130 days in a calendar year. Such a determination will be made after OGE has received advice from the Corporation and shall be in accordance with the guidelines established in 5 C.F.R. Sec. 734.205.

(d) Contents of Reports. The information required to be included in each report is fully described in the instructions accompanying the Executive Personnel Financial Disclosure Report (S.F. 278) prescribed by OGE and in regulations promulgated by OGE (5 C.F.R. Part 734), which requirements are incorporated herein by reference. Directors and Employees are encouraged to consult with the Ethics Officer, as necessary, concerning such reqirements.

(e) Filing, Custody, Review.

A reporting individual shall file the report with the Ethics Officer of the Corporation, who shall note on the report or supplemental repprt the date it is received. The Ethics Officer shall submit the report of each Director, as well as his or her own report, to the Director of OGE after he or she has reviewed it (except that the Chairman or his delegee shall review the report of the Ethics Officer).

(f) The Corporation shall, within fifteen days after any report is received by the Ethics Officer, make each report filed with it under this Part available to the public by permitting inspection of such report by, or furnishing a copy of such report to, any person who makes a written application stating (1) the person's name, occupation and address, (2) the name and address of any other person or organization on whose behalf the inspection or copy is requested, and (3) that such person is aware of the prohibitions on obtaining or using the report for (a) any unlawful purpose, (b) any commercial purpose, other than by news and communications media for dissemination to the general public, (c) determining or establishing the individual's credit rating, or (d) use, directly or indirectly, in the solicitation of money for any political, charitable, or other purpose. The Corporation may require a reasonable fee to be paid which is necessary to recover the direct cost of reproduction or mailing of such report, or may waive or reduce the fee if the Corporation determines that such waiver or reduction is in the public interest.

All reports shall be retained by the Corporation for six years, during which time they shall be made available to the public as provided above. After the six-year period a report shall be destroyed, unless needed in an ongoing investigation.

(g) The Ethics Officer shall review each report within 60 days after the date of filing (or earlier if required by the expedited procedure of 5 C.F.R. Sec 734.604(c)) in order to determine that the individual is in compliance with applicable laws and regulations and that the interests or positions disclosed on the form do not violate any applicable satute or regulation. Such review shall be conducted pursuant to 5 C.F.R. Sec. 734.604.

(h) The Chairman of the Corporation shall refer to the Attorney General the name of any individual he or she has reasonable cause to believe has willfully falsified or willfully failed to file information required to be reported and may take any appropriate personnel or other action in accordance with applicable law or Corporation policy against such individual.

PART 5 - FINANCIAL INTERESTS OF OTHER CORPORATION EMPLOYEES.

Section 18. Financial Disclosure Reports.

(a) Filing Requirement. To the extent they are not covered by Part 4 of these Standards of Conduct, reports of employment and financial interests shall also be submitted by

(1) each Corporation Employee whose position is compensated at a rate equivalent to that payable for grade GS-13 or above of the General Schedule established by Chapter 53 of title 5 of the United States Code who occupies a position the basic duties and responsibilities of which consist of the investigation, evaluation, negotiation, administration, or implementation of any synthetic fuels project formally proposed to the Corporation or the procurement of goods and services for the Corporation; and

(2) such other Employees who are in positions which otherwise meets the criteria set out in clause (1) (other than rate of compensation), and whose inclusion has been determined by the Chairman in writing as essential to protect the integrity of the Corporation and avoid Employee involvement in a possible conflict-of-interest situation.

(b) Time and Place for Submission. The reports referred to in this section shall be submitted to the Ethics Officer. An Employee who, after the effective date of this policy, is appointed to a position requiring submission of such report, shall submit such report within 30 days after appointment. Each covered Employee who previously submitted any such report shall submit a supplementary report on or before June 30 of each succeeding year, regardless of whether or not there were occurrences which would require changes in, or additions to, information previously submitted.

(c) Form of Reports. Reports of employment and financial interests shall be submitted on a standard form "Report of Financial Interests," copies of which are available in the Personnel Office of the Corporation.

The following rules shall be observed in preparing the statements:

(1) The interest, if any, of a spouse, minor child, or other member of the Employee's immediate household is considered to be an interest of the Employee. For the purpose of this section, "member of an Employee's immediate household" means those blood relations who are residents of the Employee's household.

(2) If any information required to be included on a Report of Financial Interests or supplementary report, including holdings placed in trust, is not known to the Employee but is known to another person, the Employee shall request that other person to submit information in his behalf.

(3) An Employee is not required to submit in a report of Financial Interests or supplementary report any information relating to the Employee's connection with, or interest in, a professional society, a charitable, religious, social, fraternal, recreational, public service, civic or political organization or a similar organization not conducted as a business enterprise.

(d) Confidentiality of Employee's Statements. The Corporation shall hold each Report of Financial Interests, and each supplementary report, filed under this section in confidence. To insure this confidentiality, the Ethics Officer is designated to review and retain the reports, and shall be responsible for the maintenance of the reports in confidence, and he shall not allow access to, or allow information to be disclosed from a report except as necessary to carry out the purpose of this section. The Corporation shall not disclose information from a report except as the Chairman may determine for good cause shown. All reports filed under this section shall be retained by the Corporation for six years, after which period a report shall be destroyed, unless needed in an ongoing investigation.

(e) Effect of Employee's Reports on Other Requirements. The reports required by this section are in addition to, and not in substitution for, or in derogation of, any similar requirement imposed by law, or regulation. The submission of a report or supplementary report by an employee does not permit him or any other person to participate in a matter in which his or the other person's participation is prohibited by law, or this policy.

(f) Review of Statements and Remedial Action. All reports submitted under this section shall be reviewed by the Ethics Officer. If, in the judgment of the Ethics Officer, any report discloses a conflict of interest, or an apparent or potential conflict of interest between the interests of the Employee and the performance of such Employee's duties at the Corporation, the Ethics Officer shall consult with such Employee and shall take such action as he deems appropriate to resolve such conflict, or apparent or potential conflict. If the Ethics Officer is unable to resolve the situation, he shall report the matter to the Chairman who shall then take appropriate remedial action to end such conflict or potential conflict, or apparent conflict. Remedial action may include, but is not limited to:

(1) changes in assigned duties;

(2) disqualification for a particular assignment;

(3) divestment by the Employee of his conflicting interest; or

(4) disciplinary action.

Remedial action, whether disciplinary or otherwise, shall be effected in accordance with any applicable laws and regulations.

(g) Exclusions From Reporting Requirements.

(1) Any Employee who considers that his or her position has been improperly included among those requiring the submission of the reports required by this section may submit the matter for review by the Ethics Officer.

(2) Employees in positions that meet the criteria in subsection (a) of this section may be excluded from the reporting requirements of this section if the Chairman determines that:

(a) the duties of a position are at such a level of responsibility that the likelihood of the incumbent's involvement in a conflict-of-interest situation is remote; or

(b) the duties of a position are at such a level of responsibility that the submission of a report is not necessary because of the degree of supervision and review over the incumbent or the inconsequential effect of the duties of the position on the integrity of the Corporation.

PART 6. POST-EMPLOYMENT CONFLICTS OF INTEREST.

Section 19. Post-Employment Conflicts of Interest

(a) Statutory. Sections 118(b) and 118(d) of the Act relate to post-employment activities of Directors and Employees. Section 118(b) applies to former Federal employees employed by the Corporation and provides that the laws governing post-Federal employment shall not apply to them while acting on behalf of the Corporation. Section 118(d) provides that section 207(a) of title 18 of the United States Code (and subsections (f), (h), and (j) of such section to the extent they relate to subsection (a) shall apply to former Directors, officers and employees of the Corporation as if they were former officers or employees of the executive branch of the United States Government, and also provides that section 207(a) shall apply to the Corporation as if it were an agency of the executive branch of the United States Government. In addition, under the Ethics in Government Act of 1978 the Office of Government Ethics within the Office of Personnel Management has supervisory jurisdiction over the administration of subsection (j) of section 207 throughout the Government. Pursuant to the 1978 Act, the OPM has, on the recommendation of the Director of OGE and in consultation with the Attorney General, issued regulations in 5 C.F.R. 737 to guide agencies (including the Corporation) in exercising the administrative enforcement authority contained in Section 18 U.S.C. 207(j), and to provide guidance to individuals who must conform to the law. Criminal enforcement of the provisions of 18 U.S.C. 207(a) is the exclusive responsibility of the Attorney General.

(b) Purpose. It is the purpose of this section to provide guidelines for Directors and Employees within the framework of 18 U.S.C. 207(a) and the OPM regulations. Reference should be made to the regulations, and the Ethics Officer should be consulted, for detailed statements of the law, definitions, exemptions, limitations and illustrative examples.

(c) Guidelines. The statute bars certain acts by former Directors and Employees, which may reasonably give the appearance of making unfair use of prior Corporation employment and affiliations. It does not, however, bar any former Director or Employee, regardless of rank, from employment with any private or public employer after he or she has left the Corporation's employ. Nor does it bar employment even on a particular matter in which the former Director or Employee had major official involvement except in certain circumstances involving persons engaged in professional advocacy. Rather, the specific prohibitions arise from a combination of the following factors which in any given situation may include the following: (1) the nature and extent of the involvement in a particular matter by the individual while employed by the Corporation, (2) the identity of the particular matter with which the individual dealt while employed by the Corporation with the same matter with respect to which he or she may represent others after leaving the Corporation, (3) the manner in which the former Director or Employee appears before or communicates with the Corporation or the U.S. Government, and (4) the position occupied by the individual while in the Corporation's employ.

(d) Permanent restriction against any former Director or Employee acting as representative as to a particular matter in which the Director or Employee personally and substantially participated.

(1) The Prohibition of 18 U.S.C. 207(a). No former Director or Employee after terminating employment with the Corporation shall knowingly act as agent or attorney for, or otherwise represent any other person, in any formal or informal appearance before, or with intent to influence, make any oral or written communication on behalf of any other person (1) to the Corporation or otherwise to the United States, (2) in connection with any particular matter involving a specific party, and (3) in which matter such Director or Employee participated personally and substantially while with the Corporation.

(2) Pertinent combination of factors involved in this prohibition include the following:

(a) since the prohibition has no time limit, it raises a permanent bar to the proscribed activity;

(b) the former Employee is prohibited from acting as agent or attorney for any other person, but not for himself;

(c) it prohibits representation by an "appearance" even if only in a technical procedural sense regardless of physical presence;

(d) it also prohibits any communication with intent to influence;

(e) the prohibition against an appearance or communication extends to other departments, agencies and courts of the United States and is not limited to the Corporation;

(f) the representation by the former Employee must be in connection with a particular matter involving specific parties; and

(g) the particular matter must be one in which the former Employee participated personally and substantially while in the Corporation's employ.

(3) the prohibition in paragraph (1) of this subsection shall not apply to:

(a) any appearance, attendance, or communication by a former Director or Employee who is employed by and acting on behalf of the United States; or

(b) any appearance or communication by the individual where such appearance or communication is made in response to a subpoena, or concerns any matter of an exclusively personal and individual nature such as pension benefits.

(e) Exemption for persons with special qualifications.

(1) A former Director or Employee may be exempted from the prohibitions of 18 U.S.C. 207(a) and this section if the Chairman, in consultation with the Director of OGE, executes a certification published in the Federal Register that such individual has outstanding qualifications in a scientific, technological, or other technical discipline and is acting with respect to a particular matter which requires such qualifications and that the national interest would be served by such individual's participation.

(2) This exemption shall be used only in instances where the former Director or Employee's services are needed on so continuous and comprehensive a basis that other procedures for the communication of technical information designed to isolate the individual from otber aspects of the matter would be burdensome and impractical.

(3) The exemption shall be effective upon the execution of the certification required by paragraph (1), provided that it is transmitted to the Federal Register for publication.

(f) Testimony and statements subject to penalty of perjury. A former Corporation Director or Employee may make any statement required to be made under penalty of perjury.

(g) Administrative Enforcement.

(1) Information of Violation. On receipt of information regarding a possible violation of 18 U.S.C. 207(a) and after determining that such information appears substantiated, the Chairman or the Ethics Officer, if so directed by the Chairman, shall expeditiously provide such information along with any comments or pertinent Corporation policy to the Director of the OGE and to the Criminal Division, Department of Justice. Any continuing investigation by the Corporation on administrative action shall be coordinated with the Department of Justice to avoid prejudicing criminal proceedings unless the Department of Justice advises the Corporation that it does not intend to initiate criminal prosecution (18 U.S.C. 207, 5 C.F.R. 737.27).

(2) Initiation of Administrative Proceedings. Whenever the Corporation has determined after appropriate review that there is reasonable cause to believe that a former Director or Employee has violated any of the provisions of 18 U.S.C. 207(a) or 5 C.F.R. 737, it may initiate an administrative disciplinary proceeding by providing the former Director or Employee with notice as defined in the statute. Prior to a determination of sufficient cause to initiate an administrative disciplinary hearing, all records under the Corporation's control relating to allegations of a violation shall be confidential, subject to applicable law (18 U.S.C. 207, 5 C.F.R. 737.27).

(3) Notice and Hearing. The notice of an administrative disciplinary proceeding and any hearing pursuant to such notice requested by the former Director or Employee shall follow the procedures set forth in 5 C.F.R. 737.27(a)(3), (4), (5), (6), (7) and (8).

(4) Administrative Sanctions. Actions which may be taken by the Corporation in the case of an individual who is found in violation of 18 U.S.C. 207(a) or 5 C.F.R. 737, after a final administrative decision, or who failed to request a hearing after receiving adequate notice, include: (1) prohibiting the individual from making, on behalf of any other person except the United States, any formal or informal appearance before, or, with the intent to influence, any oral or written communication to, the Corporation on any matter of business for a period not to exceed five years, which may be accomplished by directing Corporation Employees to refuse to participate in such appearance or to accept any such communications, or (2) taking other appropriate disciplinary action.

PART 7 - PROCEDURES AND STANDARDS OF CONDUCT APPLICABLE TO CONSULTANTS.

Section 20. Procedures applicable to consultants.

(a) This section sets forth procedures which shall be observed in appointing and utilizing consultants.

(1) All individuals and organizations retained to perform consulting services for the Corporation shall be required to read the "Standards of Conduct for Outside Consultants" set forth in subsection (b) of this Section.

(2) Prior to appointment or retention prospective consultants shall be required to make disclosure of any financial interest in, and any affiliation with any person, firm, or organization listed on the list of participating organizations published by the Ethics Officer pursuant to section 6(b)(5) of this policy. "Affiliation" includes, but is not limited to service as an employee, officer, member, owner, director, trustee, advisor, or consultant.

(3) No consultant having any financial interest in or affiliation with any Participating Organization shall be retained by the Corporation unless the Ethics Officer determines in writing (1) that the financial interest or affiliation is too remote or too inconsequential to affect the integrity of the services which the Corporation may expect from the consultant or (2) that satisfactory arrangements have been made to obviate any conflicts of interest on the part of such consultant. This determination shall be made after consultation with the Employee proposing retention of the consultant.

(4) Each person who is retained as an individual to provide consulting services on a full-time, part-time, or intermittent basis for more than 60 days in a calendar year at a rate of compensation equivalent to or above the rate payable for grade GS-16 of the General Schedule prescribed by 5 U.S.C. 5332 shall file a financial disclosure report in accordance with section 17 of this Policy. Individual consultants compensated at a rate less than the rate payable for grade GS-16 but equivalent to or above the rate payable for GS-13 of such schedule whose services for the Corporation meet the criteria set out in Section 18(a) shall file a "Report of Financial Interests" in accordance with Section 19 of this Policy.

(5) The Ethics Officer shall advise those authorizing the services of consultants of the requirements of this section, and each officer of the Corporation shall observe such requirements in engaging consultant services for the Corporation.

(b) Standards of Conduct for Outside Consultants. The following is intended for the guidance of consultants retained to provide services to the Corporation.

(1) Inside Information. A consultant must conduct himself in a manner devoid of the slightest suggestion that he is exploiting his Corporation consultancy for private advantage. Thus, a consultant must not, on the basis of any information gained in the course of his activities with the Corporation invest or recommend investment in any commodities, land or securities. Moreover, he should be careful in his personal financial activities to avoid any appearance of acting on the basis of information obtained in the course of his activities with the Corporation.

(2) It is important for a consultant to have access to Corporation data pertinent to his duties and to maintain familiarity with the Corporation's plans and programs and the requirements thereof, within the area of his responsibility. Where such data have been made generally available to the public, there is generally no impropriety in a consultant's utilizing such information in the course of his non-Corporation activities after it has become so available. However, a consultant may, in addition, acquire information which is not generally available to those outside the Corporation. In that event, he may not use such information for the benefit of a business or other entity by which he is employed or retained or in which he has a financial interest.

(3) Consultants must also be alert to section 163(a)(4) of the Energy Security Act which makes it a criminal offense for anyone to give to any person any unauthorized information concerning any future action or plan of the Corporation, or having such knowledge to invest or speculate, directly or indirectly, in the securities or property of any company, bank, or corporation receiving financial assistance from the Corporation.

(4) Consultants and advisors are encouraged to confer with the Ethics Officer and other appropriate persons at the Corporation to assist them in the identification of information not generally available and in the resolution of any actual or potential conflict between duties to the Corporation and to other employers or clients.

(5) Occasionally an individual who becomes a consultant to the Corporation may, subsequent to his designation as such, be requested by another party to act in a similar capacity. In some cases the request may give the appearance of being motivated by the desire of the other party to secure inside information. Where the consultant has reason to believe that the request for his services is so motivated, he should make a choice between acceptance of the tendered employment and continuation of his Corporation consultancy. In such circumstances he may not engage in both.

(6) A consultant shall not use his position in any way to coerce, or give the appearance of coercing, another person to provide any financial benefit to him or persons with whom he has family, business, or financial ties.

(c) Statutory provisions. The attention of all Corporation consultants is directed to the following statutory provisions:

(1) The prohibition contained in Section 161 of the Act (42 U.S.C. 8761) relating to false statements in connection with certain Corporation activities.

(2) The prohibition contained in Section 162 of the Act (42 U.S.C. 8762) relating to forgery of Corporation instruments and agreements.

(3) The prohibition contained in Section 163 of the Act (42 U.S.C. 8763) relating to misappropriation of funds and unauthorized activities in relation to the Corporation's business.

(4) The prohibition contained in Section 164 of the Act (42 U.S.C. 8764) relating to conspiracy to commit acts made unlawful by Sections 161, 162, or 163 of the Act;

(5) The prohibition contained in Section 171(b) of the Act (42 U.S.C. 8771(b)) relating to the exercise of the Corporation's authorities;

(6) The prohibition contained in Section 121(c) of the Act (42 U.S.C. 8717(c)) and 18 U.S.C. 1905 relating to the disclosure of confidential information;

(7) The prohibition contained in 18 U.S.C. 201 relating to the solicitation or receipt of anything of value for or because of an official act;

(8) The prohibition contained in 18 U.S.C. 1719 relating to misuse of the franking privilege.

UNITED STATES SYNTHETIC FUELS CORPORATION

Edward E. Noble
Chairman of the Board of Directors